



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
JUNE 30, 2011**

*City of Sedona
Arizona*

CITY OF SEDONA, ARIZONA

Table of Contents

Introductory Section:	<u>Page</u>
Letter of Transmittal.....	i
Organizational Chart	x
GFOA Certificate of Achievement.....	xii
 Financial Section:	
Report of Certified Public Accountants	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balance To Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund - Budget and Actual.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Highway User Revenue Fund - Budget and Actual	20
Statement of Net Assets - Proprietary Funds	21
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds.....	23
Notes to Financial Statements.....	24
Required Supplemental Information – Public Safety Retirement System	46

Supplementary Information – Budgetary Comparison Major Funds

Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Capital Improvement Fund - Budget and Actual 48

Schedule of Revenues, Expenditures, and Changes in
Net Assets – Wastewater Enterprise Fund – Budget and Actual 49

Supplementary Information - Combining Statements and Individual Fund
Budget and Actual Schedules – Nonmajor Governmental Funds 51

Statistical Section:

Net Assets by Component 65
Changes in Net Assets 66
Fund Balances, Governmental Funds 68
Changes in Fund Balances, Governmental Funds 69
Principal Sales Tax Remitters 70
General Government Tax Revenues by Source 71
Sales Tax Collections by Category 72
Direct and Overlapping Sales Tax Rates 73
Ratios of Outstanding Debt by Type 74
Direct and Overlapping Governmental Activities Debt 75
Pledged Revenue Coverage 76
Debt Limitations and Computation of Legal Debt Margin 77
Demographic Statistics – Population Statistics, Unemployment Averages 78
Principal Employers 79
Full-Time Equivalent Employees by Function 80
Operating Indicators by Function 81
Capital Asset Statistics by Function 82



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December 15, 2011

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

We are pleased to submit to you the 2011 Comprehensive Annual Financial Report (CAFR) for the City of Sedona, Arizona (the City). The report was prepared by the Financial Services Department and reviewed by the City Manager.

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

Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the City. The City has established and maintains a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of financial statements. We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. Furthermore, we believe that all disclosures necessary to enable the reader to gain an understanding of the City's financial activity and financial stability have been included.

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

An independent firm of certified public accountants, Hinton, Burdick, Hall & Spilker, PLLC , whose report is included herein, has *examined* 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, 2011, 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, 2011,

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

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

The City encompasses approximately 19 square miles and is located in both Yavapai and Coconino Counties. Between 1988, when the City was incorporated, and today, the City's population has increased approximately 30%. The estimated current population is approximately 10,031 (per the 2010 census). The City's growth is attributable to the growth patterns of the Southwest and of the State of Arizona and Yavapai County. The City has attempted to manage its growth in a way to maintain its character. Based on current projections, population growth trends are expected to continue to be flat. This zero growth will continue to present significant challenges to the City in providing its current high level of services.

The City's economy is primarily tourism focused with the majority of local operating revenue being generated through bed and sales taxes. The impacts of the recent national and statewide economic downturn have also been felt in Sedona. Although tourist activity has begun to return, the rate of growth is expected to be minimal, adding to the impacts of zero-growth on construction-related revenue.

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

FINANCIAL CONTROLS

Internal Controls

As previously noted, the management of the City of Sedona 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 deposition, 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, 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, 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 2011 a successful year, and will provide for continued success in the years to come.

Economic Outlook

Retail Sales: The City of Sedona places a heavy reliance on City-collected sales tax. Overall, sales tax revenues comprise approximately 53% of the General Fund revenues. The City's sales tax rate is currently at 3% (until early 2010, this funding was split between General Fund 1.12%, Capital Fund .5% and Wastewater Enterprise Fund 1.38%). In order to address the economic downturn, the fund split was adjusted to provide 1.62% to the General Fund and 1.38% to the Wastewater Enterprise Fund, with general capital projects being funded from an annually adjusted transfer at levels necessary to support needed projects and allowing for allocation of funds to the most fundamental areas of service. The City also has a 3% Bed tax (occupancy) that is allocated to the General Fund.

State Shared Revenues: The City of Sedona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, gas tax and motor vehicle in-lieu taxes. A significant amount of this revenue is placed in the City's General Fund, where it is used to support a large portion of the City's day-to-day activities. State Shared revenue represents approximately 21% of the City's total general fund revenue. In recent years the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data (Last census: Year 2010). The 2010 census will serve to adjust the population based state-shared revenue formulas.

Long-Term Financial Planning

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

Budget Balancing Strategies

Over the last few years the City staff and elected officials have worked cooperatively to implement cost reductions to address the changes in the overall economy experienced. The following is a sample of strategies that have been implemented:

Staffing, Wage and Benefits Changes

- Continue with staffing freeze for all vacant positions unless required to fulfill a Council goal
- Merit and Cost of Living Adjustments frozen at FY 08/09 levels
- Elimination of year-end flexible leave payouts
- Continue reorganization to enhance efficiency
- Continue limited Travel and Training program
- Consideration of contracted versus internal provision of services

Changes to Operating Policies and Costs

- The City's vehicle fleet was reduced and guidelines for purchasing and selling (auction) have been re-established
- Department line item budgets were reduced and have been maintained at same level
- Special event funding and arts funding were reduced and have been re-evaluated by a committee
- Various community and service contracts were reduced or eliminated and the services were either provided with existing staff or eliminated

Revenue Projections and Reallocations

- Forward looking revenue projections are conservatively estimated anticipating further impacts to construction and tourism related revenues
- A Wastewater Rate study was completed and rate increases were approved for the first 5 years of the plan, with a goal to reduce sales tax subsidies to the Wastewater fund. This study will be reviewed in the upcoming year to evaluate not only the fees, but the sales tax subsidy allocation
- The Sales Tax allocation of 0.5% of the 3% to the Capital fund was reallocated to the General fund, allowing for more flexibility to fund ongoing programs and plan for new capital initiatives
- In-lieu of taxes fees have remained constant with the completion and ongoing annual assessment for a new timeshare phase

The ongoing cost savings and revenue policy changes above have allowed the City to maintain its strong operating cash position and increase its reserve to budget ratio above 100%.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

During fiscal year 2011, the City continued to invest in programs and amenities that keep Sedona a livable community.

The following are some of the service efforts and accomplishments of the City during fiscal year 2011:

Police

- Traffic enforcement and education efforts contributed to a 13.4% reduction in traffic collisions from previous year.
- Two additional police officers earned certification as Drug Recognition Experts.
- Arizona State 9-1-1 revenues funded the upgrade of the department's 9-1-1 system in the Police Communications Center.
- Successfully obtained a Governor's Office of Highway Safety (GOHS) grant to purchase and equip a new police patrol vehicle.

Public Works

- Changed to larger Street Signs on State Route 179.
- Milled and overlaid several streets within the City limits.
- Added recycling/trash containers to all City parks.
- Completed improvements to the Sedona Dog Park.
- Administered construction of Parks & Recreation projects (Posse Ground Ball field lighting, Sunset Park Tennis and Basketball courts, Teen Center, and Jordan Historical Park)
- Completed installation of security improvements at City complexes.
- Improvements to Uptown Parking Lot
- Installation of Airport Road signal completed.

Management Services

- Created a new 5-year Capital Improvement Program.
- Created Sustainability Commission.
- Created Budget Oversight Commission and established support roles of staff liaison.
- Increased focus on communication with the public including reorganization of the communications function.
- Participated in the City's first ever Citizen Academy.
- Hosted Neighborhood Listening (which are now scheduled quarterly)
- Fully implemented a new Intergovernmental Relations program and taking a more active role in Legislative Activity at the State Capitol.
- Completed the City's first sales tax audits.
- Successfully implemented self-collection of local sales tax through a contract with Revenue Discovery Systems (RDS).
- Streamlined and formalized the City's Business Licensing program.
- Installed ceiling mount projectors in Council Chambers and Vultee Conference room.
- Successful negotiation of the State Route 89A transfer.
- Continued to provide over \$1 million dollars in funding to community based not-for-profit groups for provision of contractual service and to support various community wide events.

Community Development

- Adoption of the Medical Marijuana Ordinance.
- Initiation of the Community Plan Update and formation of the Citizens Steering Committee.
- Conducted a fee analysis for all department fees.

Parks & Recreation

- Additional programming added despite significant budget reductions
- Hosted the City's first event with over 1,000 attendees.
- Successfully obtained a grant from the U.S. Tennis Association to help fund the completed repairs of Sunset Park Tennis and Basketball courts.
- Completed replacement and upgrading of the Posse Grounds ball field lighting. The new lights are more energy efficient.
- Installed new flooring at the Teen Center.

Wastewater

- Completed replacement and renovation of Wastewater Pump Stations at Northview, El Camino, Brewer Road and Carroll Canyon.
- Construction of Solids Handling Upgrade project.
- Began design of Phase I Wetlands at the Wastewater Plant.

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 continued the 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.

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

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

To date, all Councilors agreed to continue to support these existing priorities.

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 as per the guidelines of each retirement system. Financial information about these plans can be found in Note 9 of the notes to financial statements included in the Financial Section of this report.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2011 of \$59.9 million.

<u>Purpose of Debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Wastewater	\$ 48,275,000	\$ 5,647,286
Infrastructure Projects <i>Debt service begins 7/1/2018</i>	8,795,000	404,856
City Hall Purchase	<u>2,860,000</u>	<u>481,223</u>
Total Long-Term Debt	<u>\$ 59,930,000</u>	<u>\$ 6,533,365 P&I</u>

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, 2010. This was the 12th year that the City of Sedona has received this prestigious award.

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

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

Acknowledgments

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

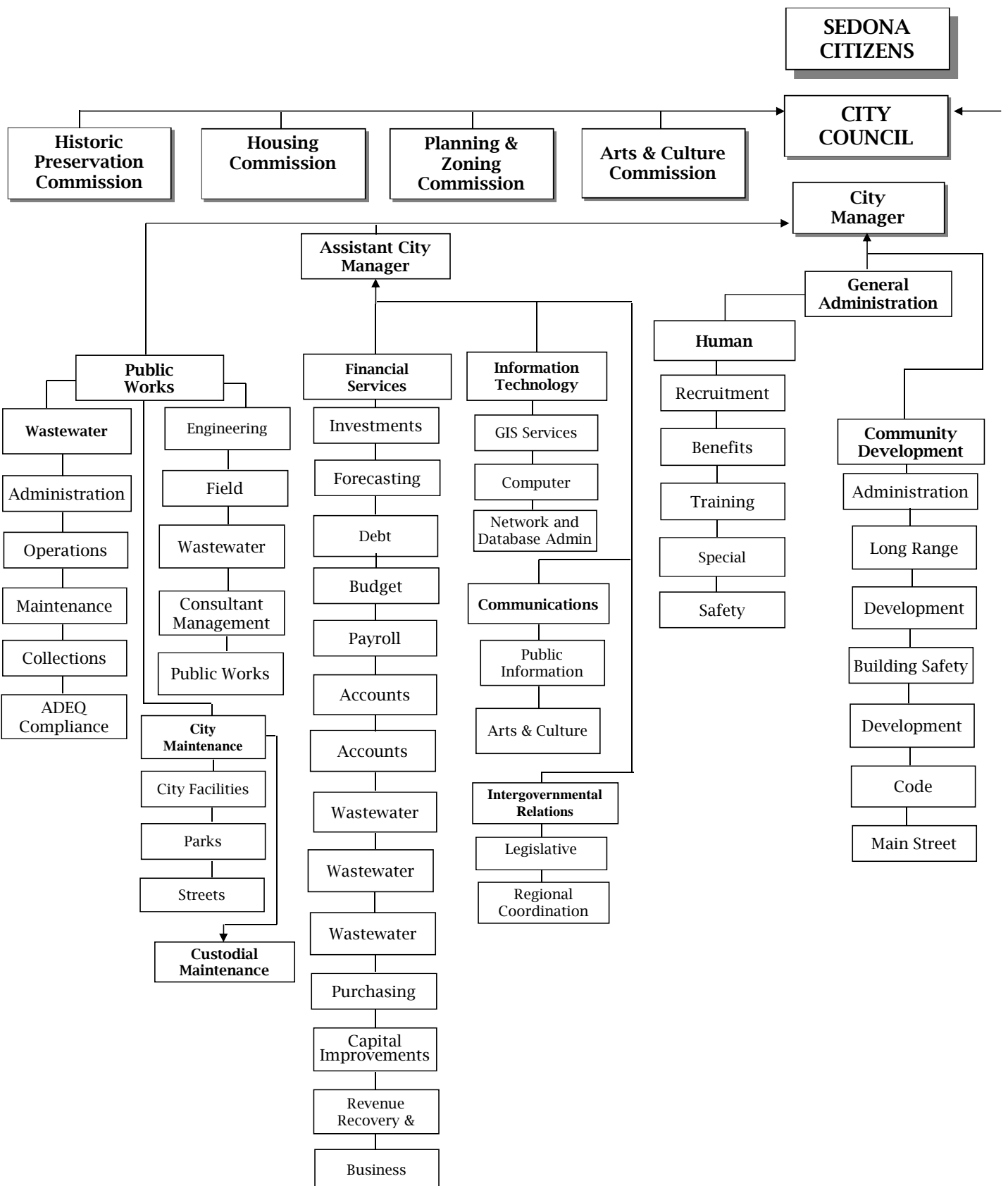
Sincerely,

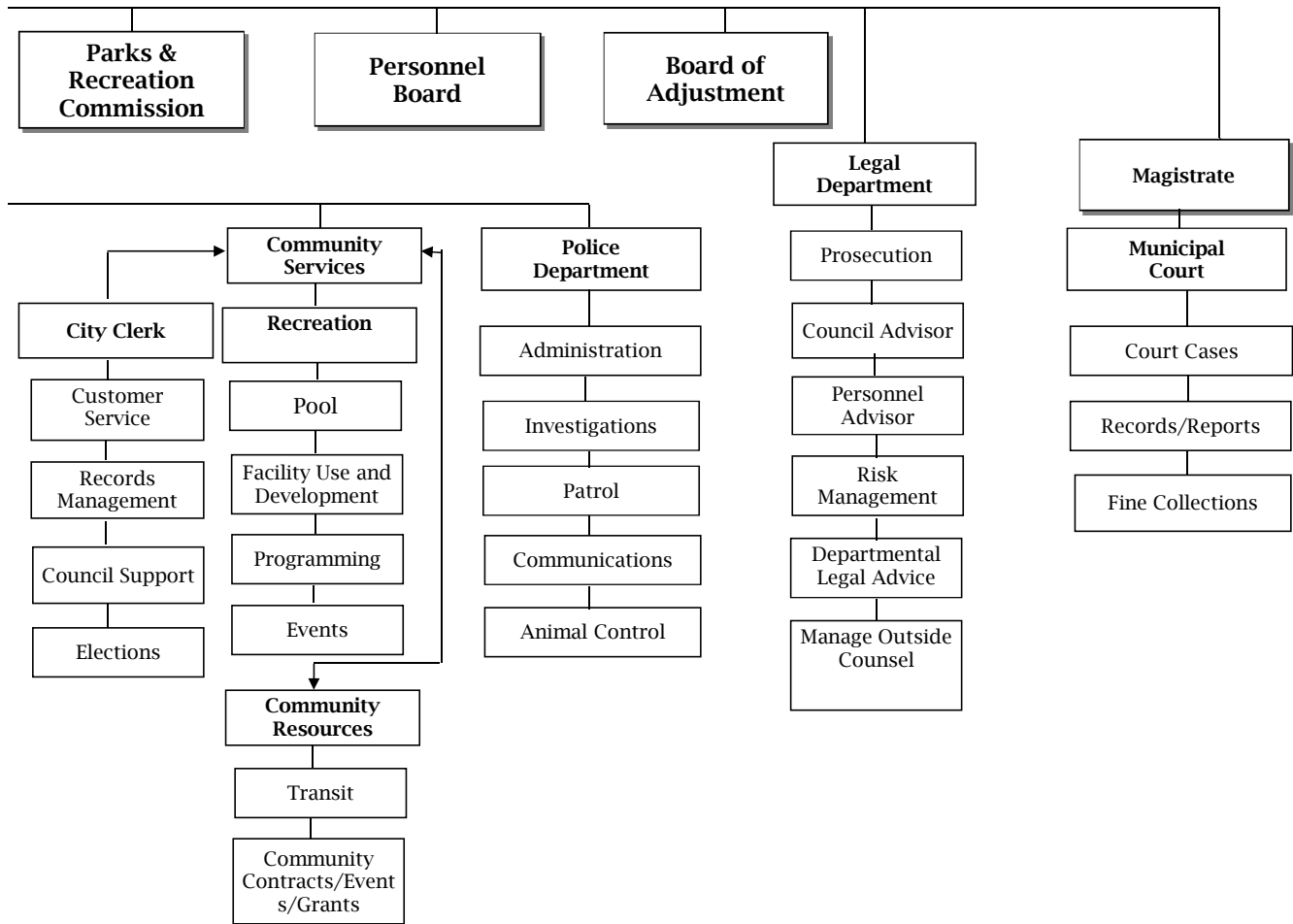


Tim Ernster
City Manager



Barbara Ashley
Finance Operations Manager





Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sedona
Arizona

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

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



Linda C. Davison

President

Jeffrey R. Enos

Executive Director

FINANCIAL SECTION

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Independent Auditors' Report

The Honorable Mayor and
 City Council
 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, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Sedona's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sedona as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund and Highway User Special Revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of the City of Sedona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and analysis and the Public Safety Retirement System information as listed in the table of contents, 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining, individual fund and other schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Sedona, Arizona. Such information has 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 other information included in this report, designated as the “Introductory Section” and the “Statistical Section” in the table of contents, have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



HINTON, BURDICK, HALL & SPILKER, PLLC
December 15, 2011

CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2011

As management of the City of Sedona, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. 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 budget) and (5) individual fund issues or concerns.

The discussion and analysis (MD&A) has a different focus and purpose than the transmittal letter 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 12 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets at the close of the fiscal year were \$105,909,869. This amount is comprised of \$66,705,731 in capital assets net of related debt, \$9,048,404 of restricted net assets and \$30,155,734 in unrestricted net assets.
- Governmental net assets increased by \$868,878 and Business-Type net assets increased by \$1,859,189.
- Total City Sales tax revenue increased by 6.73 percent from last year and still is the single largest revenue in the budget.
- Improvements totaling \$3 million were added to the City's wastewater system in the current fiscal year and approximately \$1 million in various park improvements, infrastructure and other capital asset purchases for the City's governmental activities.
- The WIFA loan was paid off during the current fiscal year. Total debt service payments were approximately \$7.4 million leaving \$60.3 million in total outstanding debt at the close of the year.
- The General Fund's unassigned fund balance increased by \$1,246,025 to \$12,403,438. The unassigned fund balance represents 120% of total General Fund expenditures for the fiscal year.
- The Capital Improvement fund balance increased by \$1,139,952 to a total fund balance of \$8,098,313 which consists of \$3,703,411 in restricted fund balance and \$4,394,902 committed for capital outlay.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) Government-wide financial statements which include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. 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's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads to accurately assess the overall health of the City.

The Statement of Net Assets and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, economic development, culture and recreation, and interest on long-term debt. Sales tax, federal grants, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/Business type activities – The City charges a fee to customers that is intended to cover all or most of the cost of the services provided for wastewater.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all 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 it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$105.9 million as of June 30, 2011 as shown in the following condensed statement of net assets. The City has chosen to account for its wastewater operations in an enterprise fund which is shown as Business Activities.

City of Sedona Statement of Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Current and other assets	\$ 28,309,629	\$ 27,788,134	\$ 19,379,230	\$ 26,962,777	\$ 47,688,859	\$ 54,750,911
Capital assets	28,968,866	29,641,516	98,079,498	97,388,188	127,048,364	127,029,704
Total assets	<u>57,278,495</u>	<u>57,429,650</u>	<u>117,458,728</u>	<u>124,350,965</u>	<u>174,737,223</u>	<u>181,780,615</u>
Long-term liabilities outstanding	11,912,337	12,253,636	48,430,296	52,638,437	60,342,633	64,892,073
Other liabilities	1,461,909	2,140,643	7,022,812	11,566,097	8,484,721	13,706,740
Total liabilities	<u>13,374,246</u>	<u>14,394,279</u>	<u>55,453,108</u>	<u>64,204,534</u>	<u>68,827,354</u>	<u>78,598,813</u>
Net assets:						
Invested in capital assets, net of related debt	17,056,529	21,081,629	49,649,202	46,616,756	66,705,731	67,698,385
Restricted	9,048,404	9,929,271	-	92,327	9,048,404	10,021,598
Unrestricted	17,799,316	12,024,471	12,356,418	13,437,348	30,155,734	25,461,819
Total net assets	<u>\$ 43,904,249</u>	<u>\$ 43,035,371</u>	<u>\$ 62,005,620</u>	<u>\$ 60,146,431</u>	<u>\$ 105,909,869</u>	<u>\$ 103,181,802</u>

The City has \$174,737,223 in total assets, with \$127,048,364 in capital assets (net of depreciation). The City's wastewater enterprise fund operation is included in the Business-type activities column. These operations are capital intensive, using a large portion of their resources to maintain and replace major equipment and facilities.

Governmental Activities

The City's programs include: General Government, Public Safety, Public Works/Streets, Economic Development, Community Services and Wastewater. Each programs' net cost (total cost less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

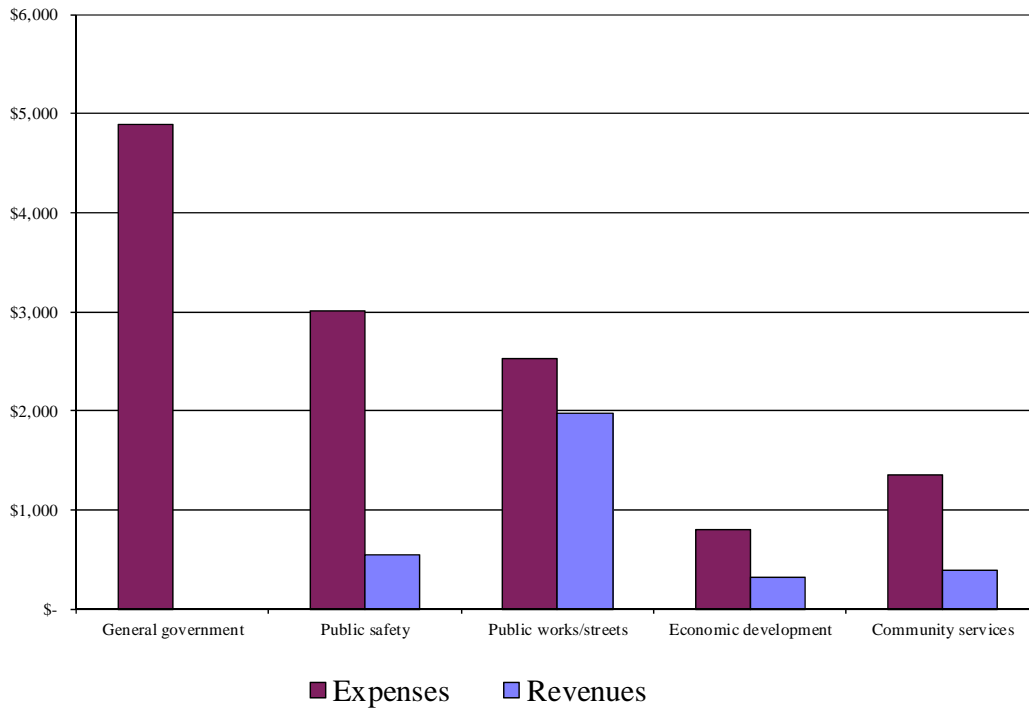
City of Sedona
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Revenues:						
Program revenues:						
Charges for services	\$ 586,877	\$ 1,044,144	\$ 4,393,291	\$ 4,335,777	\$ 4,980,168	\$ 5,379,921
Operating grants and contributions	1,732,206	2,185,565	-	-	1,732,206	2,185,565
Capital grants and contributions	918,037	426,903	-	-	918,037	426,903
General revenues:						
Taxes	9,872,516	9,622,788	5,413,073	4,925,801	15,285,589	14,548,589
State revenue sharing	1,064,334	1,411,823	-	-	1,064,334	1,411,823
Grants and contributions not restricted to specific programs	-	1,000,400	-	-	-	1,000,400
Investment earnings	166,085	533,139	134,460	409,512	300,545	942,651
Other revenue/(expense)	88,974	405,305	-	-	88,974	405,305
Total revenues	14,429,029	16,630,067	9,940,824	9,671,090	24,369,853	26,301,157
Expenses:						
General government	4,893,853	7,445,612	-	-	4,893,853	7,445,612
Public safety	3,009,197	3,618,539	-	-	3,009,197	3,618,539
Public works/Streets	2,531,632	4,899,328	-	-	2,531,632	4,899,328
Economic development	1,357,077	-	-	-	1,357,077	-
Community services	795,005	815,848	-	-	795,005	815,848
Interest on long-term debt	583,175	636,191	-	-	583,175	636,191
Wastewater	-	-	7,618,142	7,773,970	7,618,142	7,773,970
Total expenses	13,169,939	17,415,518	7,618,142	7,773,970	20,788,081	25,189,488
Increase (Decrease) in net assets before transfers	1,259,090	(785,451)	2,322,682	1,897,120	3,581,772	1,111,669
Transfers	-	404,856	-	(404,856)	-	-
Increase (Decrease) in net assets	1,259,090	(380,595)	2,322,682	1,492,264	3,581,772	1,111,669
Net assets, beginning	43,035,371	43,415,966	60,146,431	58,654,167	103,181,802	102,070,133
Prior period adjustment	(390,212)	-	(463,493)	-	(853,705)	-
Net assets, ending	\$ 43,904,249	\$ 43,035,371	\$ 62,005,620	\$ 60,146,431	\$ 105,909,869	\$ 103,181,802

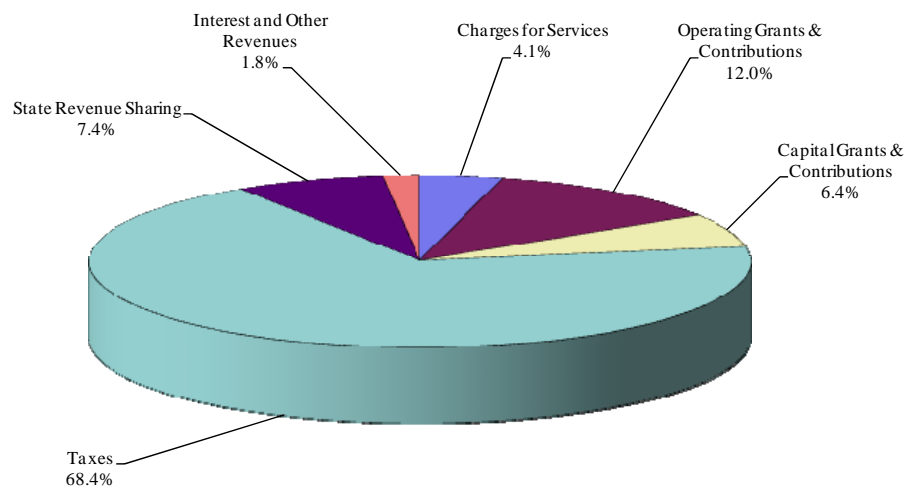
Total resources available during the year to finance governmental operations were \$57 million consisting of Net assets at July 1, 2010 of \$42.6 million, program revenues of \$3.2 million and General Revenues of \$11.2 million. Total Governmental Activities during the year were \$13 million; thus Governmental Net Assets were increased by \$868,878 to \$43.9 million which includes the prior period adjustment of \$390,212 for capital assets and debt.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

**Expenses and Program Revenues - Governmental Activities
(in Thousands)**

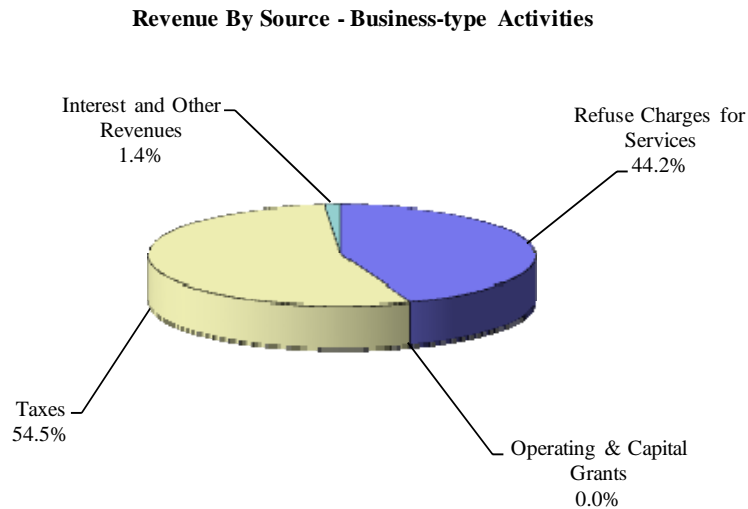
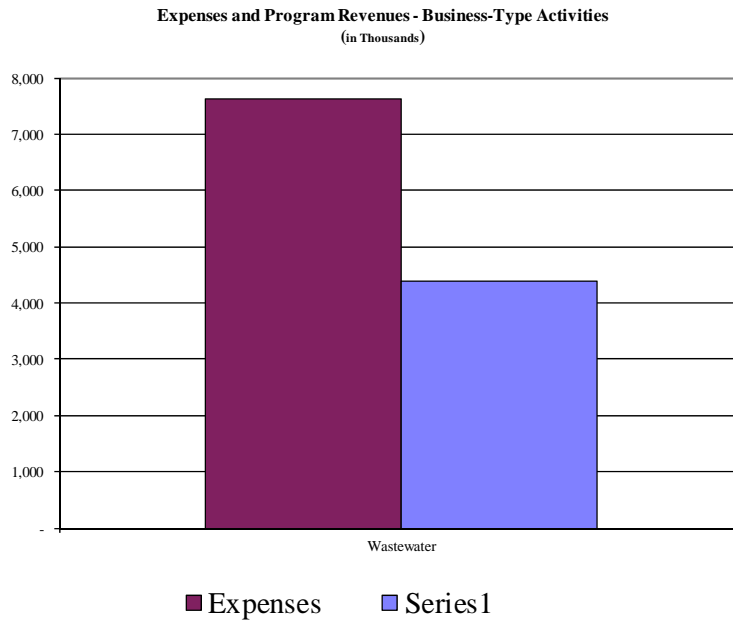


Revenue By Source - Governmental Activities



Business Type Activities

Net assets of the Business Type activities at June 30, 2011, as reflected in the Statement of Net Assets were \$62 million. The cost of providing all Proprietary (Business Type) activities this year was \$7.6 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$4.4 million and there was \$5.4 million subsidized by sales tax revenues. Interest earnings and other revenues were \$134,460 which consists mainly of loss on disposal of capital assets. The Net Assets increased by \$1,859,189.



Financial Analysis of the Government's Funds

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

Governmental funds – The focus of the City of Sedona's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Sedona'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.

As of the end of the current fiscal year, the City of Sedona's governmental funds reported combined ending fund balances of \$25.9 million, an increase of \$2 million in comparison with the prior year. Approximately, 48% of this total amount or \$12.4 million constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or committed because it has already been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The general fund is the chief operating fund of the City of Sedona. At the end of the current fiscal year, total fund balance in the general fund was \$12,403,438 all of which is unassigned. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Both unassigned fund balance and total fund balance represents 120% of total general fund expenditures.

During the year, the City of Sedona's general fund balance increased by \$1,246,025 primarily due to sales tax revenues received that were \$895,192 in excess of the budget.

The Highway User Revenue Fund has a total fund balance of \$1,468,145, all of which is restricted for road and street construction and improvements. The net decrease in the fund balance during the current year was \$221,646 due to planned appropriations of fund balance for road work.

The Capital Improvement fund balance increased by \$1,139,952 primarily due to a prior period adjustment of \$953,331 which was the result of reclassification of county flood control funds which were previously reported as deferred revenue.

The Wastewater fund experienced a \$1,189,189 increase in net assets for 2011 primarily due to receipts of sales taxes. Sales taxes received were \$763,507 in excess of the budget.

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. 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 \$11,654,879, on a budgetary basis, were greater than the budget of \$11,132,145 by \$522,734. The variance in budget to actual numbers related to revenues were the result of unanticipated sales tax audit assessments performed by an independent auditor in combination with sales tax collections performed by a third party administrator. Budgetary expenditures of \$10,343,503 were 96% of budgeted expenditures of \$10,792,478, a savings of \$448,975. The variance in budget to actual numbers related to expenditures were the result of a mid-year re-organization of staff which resulted in greater savings than anticipated and various costs throughout all line-items of the operating budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital Assets include equipment, vehicles, buildings, land, park facilities and roads. At the end of fiscal year 2011, net capital assets of the government activities totaled \$28.97 million and the net capital assets of the business-type activities totaled \$98 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$11.9 million in governmental type debt, and \$48.5 million in business-type debt. The debt is a liability of the government and amounts to \$6,031 per capita. During the current fiscal year there were no new debt issues and the City's total debt decreased by \$4.5 million as a result of regularly scheduled debt service payments. (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

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

The City is committed to maintaining cash reserves for general fund operations at a 50% level over the next few years, both for financial stability and in anticipation of the capital and ongoing operational needs of the community. Fiscal year 2011-12 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue at \$11,903,740 (including capital fund expense transfers). This means that the general fund reserves are at approximately 100%. The adopted fiscal year 2011-12 budget is \$34,335,463, which includes capital projects of \$5.0 million. The budget for fiscal year 2011-12 also includes:

- Continued city sales tax collections by third party administrator, Revenue Discovery Systems.
- Continued sales tax audits by independent auditor, Al Holler and Associates.
- Expansion of business licensing program by third party administrator, Revenue Discovery Systems (RDS).
- Continued participation in Destination Marketing in partnership with the Sedona Chamber of Commerce in order to improve the City's overnight stays.
- Continued drainage improvements in the Harmony and Windsong drives area, as per the City's Storm Drainage Master Plan.
- Renegotiate transit options with the City of Cottonwood, with both cities withdrawing from Northern Arizona Intergovernmental Public Transit Authority (NAIPTA).
- Rehabilitation to Jordan Historical Park and Museum.
- Completion of design and construction for effluent management improvements at the Wastewater Treatment Plant.
- Continue strategies to improve traffic circulation based on completed studies.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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, AZ 86336. (928) 204-7185

Or visit our website at: www.SedonaAZ.gov/finance or email: Finance_dept@sedonaaz.gov

BASIC FINANCIAL STATEMENTS

CITY OF SEDONA, ARIZONA
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,195,535	\$ 17,980,088	\$ 34,175,623
Receivables (net of allowance)	2,096,540	717,497	2,814,037
Deferred charges	238,079	681,645	919,724
Temporarily restricted assets:			
Cash and cash equivalents	9,779,475	-	9,779,475
Capital assets (net of accumulated depreciation):			
Land	6,960,501	11,159,413	18,119,914
Buildings	4,437,812	-	4,437,812
Improvements	3,417,471	-	3,417,471
System improvements	-	86,547,037	86,547,037
Machinery, equipment and vehicles	794,153	373,048	1,167,201
Infrastructure/Roads	13,358,929	-	13,358,929
Total assets	<u>57,278,495</u>	<u>117,458,728</u>	<u>174,737,223</u>
Liabilities			
Accounts payable and other current liabilities	1,383,825	531,418	1,915,243
Interest payable	-	5,622,689	5,622,689
Unearned revenue	78,084	868,705	946,789
Noncurrent liabilities:			
Due within one year	694,997	3,655,000	4,349,997
Due in more than one year	11,217,340	44,775,296	55,992,636
Total liabilities	<u>13,374,246</u>	<u>55,453,108</u>	<u>68,827,354</u>
Net Assets			
Invested in capital assets, net of related debt	17,056,529	49,649,202	66,705,731
Restricted for:			
Highways and streets	1,468,145	-	1,468,145
Capital outlay	6,800,987	-	6,800,987
Other	779,272	-	779,272
Unrestricted	17,799,316	12,356,418	30,155,734
Total net assets	<u>\$ 43,904,249</u>	<u>\$ 62,005,620</u>	<u>\$ 105,909,869</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 4,893,853	\$ -	\$ -	\$ -	\$ (4,893,853)	\$ -	\$ (4,893,853)
Public safety	3,009,197	200,129	257,662	92,718	(2,458,688)	-	(2,458,688)
Public works/streets	2,531,632	139,856	1,366,055	464,467	(561,254)	-	(561,254)
Economic development	795,005	189,417	-	132,992	(472,596)	-	(472,596)
Community services	1,357,077	57,475	108,489	227,860	(963,253)	-	(963,253)
Interest on long-term debt	583,175	-	-	-	(583,175)	-	(583,175)
Total governmental activities	13,169,939	586,877	1,732,206	918,037	(9,932,819)	-	(9,932,819)
Business-type activities:							
Wastewater	7,618,142	4,393,291	-	-	-	(3,224,851)	(3,224,851)
Total business-type activities	7,618,142	4,393,291	-	-	-	(3,224,851)	(3,224,851)
Total primary government	\$ 20,788,081	\$ 4,980,168	\$ 1,732,206	\$ 918,037			
General Revenues:							
Taxes:							
Sales tax					7,799,486	5,413,073	13,212,559
State sales tax					830,562	-	830,562
Auto lieu tax					543,380	-	543,380
Franchise tax					699,088	-	699,088
State sales taxes - revenue sharing (unrestricted)					1,064,334	-	1,064,334
Unrestricted investment earnings					166,085	134,460	300,545
Other					88,974	-	88,974
Total general revenues & transfers					11,191,909	5,547,533	16,739,442
Change in net assets					1,259,090	2,322,682	3,581,772
Net assets - beginning					43,035,371	60,146,431	103,181,802
Prior period adjustment					(390,212)	(463,493)	(853,705)
Net assets - ending					\$ 43,904,249	\$ 62,005,620	\$ 105,909,869

The accompanying notes are an integral part of the financial statements.

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

Assets	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 11,722,354	\$ -	\$ 4,394,902	\$ 78,279	\$ 16,195,535
Receivables:					
Taxes	-	-	-	34,031	34,031
Other	396,251	873	-	-	397,124
Intergovernmental	1,254,100	73,618	110,090	227,577	1,665,385
Restricted cash and investments	-	1,633,028	4,329,239	3,817,208	9,779,475
Total assets	\$ 13,372,705	\$ 1,707,519	\$ 8,834,231	\$4,157,095	\$ 28,071,550
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 339,504	\$ 239,374	\$ 212,964	\$ 203,534	\$ 995,376
Accrued wages and benefits	388,449	-	-	-	388,449
Deferred revenue	166,139	-	522,954	-	689,093
Unearned revenue	75,175	-	-	2,909	78,084
Total liabilities	969,267	239,374	735,918	206,443	2,151,002
Fund Balances:					
Restricted for:					
Public safety	-	-	-	175,538	175,538
Public works/streets	-	1,468,145	-	-	1,468,145
Community services	-	-	-	603,734	603,734
Capital outlay	-	-	3,703,411	3,097,576	6,800,987
Committed to:					
Community services	-	-	-	73,804	73,804
Capital outlay	-	-	4,394,902	-	4,394,902
Unassigned	12,403,438	-	-	-	12,403,438
Total fund balances	12,403,438	1,468,145	8,098,313	3,950,652	25,920,548
Total Liabilities and fund balances	\$ 13,372,705	\$ 1,707,519	\$ 8,834,231	\$4,157,095	\$ 28,071,550

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Reconciliation of Total Governmental Fund Balance
To Net Assets of Governmental Activities
June 30, 2011

Total governmental fund balances	\$	25,920,548
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 43,003,501	
Less accumulated depreciation	<u>(14,034,635)</u>	28,968,866
<p>Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$ (11,655,000)	
Deferred amount on refunding	375,400	
Deferred amount of premium	(218,588)	
Capital leases	(64,328)	
Compensated absences	(349,821)	
Deferred charges for bond issue costs	<u>238,079</u>	(11,674,258)
<p>Sales tax audit revenues and various donations are deferred in the governmental fund financial statements but recognized when earned in the statement of activities</p>		
		<u>689,093</u>
Total net assets of governmental activities	\$	<u><u>43,904,249</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

REVENUES	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 8,375,159	\$ -	\$ -	\$ 163,434	\$ 8,538,593
Licenses, permits and fees	179,555	-	-	-	179,555
Intergovernmental revenue	2,443,001	891,013	578,971	560,998	4,473,983
Contributions/donations	-	-	-	6,452	6,452
Charges for services	98,339	-	-	-	98,339
Fines and forfeitures	200,129	-	-	-	200,129
Impact fees	-	-	-	154,162	154,162
Interest	111,180	18,887	41,403	50,316	221,786
Other revenues	247,516	-	44,784	-	292,300
Total revenues	<u>11,654,879</u>	<u>909,900</u>	<u>665,158</u>	<u>935,362</u>	<u>14,165,299</u>
EXPENDITURES					
Current:					
General government	4,064,584	-	-	162,131	4,226,715
Public safety	2,663,568	-	-	283,622	2,947,190
Public works/Streets	729,044	1,131,546	-	170,433	2,031,023
Economic development	791,225	-	-	3,780	795,005
Community services	1,170,608	-	-	483,772	1,654,380
Capital outlay	-	-	495,433	145,156	640,589
Debt service:					
Principal	362,009	-	-	-	362,009
Interest and fiscal charges	562,465	-	-	-	562,465
Total expenditures	<u>10,343,503</u>	<u>1,131,546</u>	<u>495,433</u>	<u>1,248,894</u>	<u>13,219,376</u>
Excess of revenues					
Over (Under) Expenditures	<u>1,311,376</u>	<u>(221,646)</u>	<u>169,725</u>	<u>(313,532)</u>	<u>945,923</u>
Other Financing Sources (Uses):					
Transfers out	(201,987)	-	(114,138)	-	(316,125)
Transfers in	-	-	131,034	185,091	316,125
Total other financing Sources (Uses)	<u>(201,987)</u>	<u>-</u>	<u>16,896</u>	<u>185,091</u>	<u>-</u>
Net change in fund balances	1,109,389	(221,646)	186,621	(128,441)	945,923
Fund balances, beginning of year	11,157,413	1,689,791	6,958,361	4,079,093	23,884,658
Prior Period Adjustment	136,636	-	953,331	-	1,089,967
Fund balances, end of year	<u>\$ 12,403,438</u>	<u>\$ 1,468,145</u>	<u>\$ 8,098,313</u>	<u>\$ 3,950,652</u>	<u>\$ 25,920,548</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balance of Governmental Funds
To The Statement of Activities
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$	945,923
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	\$	1,577,185
Depreciation expense		<u>(1,850,815)</u>
		(273,630)
<p>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.</p>		
		(8,807)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of current year deferrals of sales tax audit receivables and deferred contributions.</p>		
		272,536
<p>Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		362,009
<p>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.</p>		
Amortization of bond issue costs		(18,231)
Amortization of deferred amounts on refunding		(47,253)
Amortization of bond premium		<u>26,543</u>
Change in net assets of governmental activities	\$	<u><u>1,259,090</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2011

Revenues	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
City sales tax	\$ 5,276,616	\$ 5,276,616	\$ 6,171,808	\$ 895,192
Bed tax	1,225,785	1,225,785	1,472,193	246,408
Recovery of sales taxes - audit	120,000	120,000	32,070	(87,930)
Franchise taxes	667,787	667,787	699,088	31,301
Total taxes	<u>7,290,188</u>	<u>7,290,188</u>	<u>8,375,159</u>	<u>1,084,971</u>
Licenses and permits	245,416	245,416	179,555	(65,861)
Intergovernmental revenues:				
State sales tax	820,369	820,369	830,562	10,193
Auto lieu tax	600,023	600,023	543,380	(56,643)
Urban revenue sharing	1,064,174	1,064,174	1,064,334	160
Fee-in lieu taxes	326,209	326,209	-	(326,209)
Grant revenues	-	-	4,725	4,725
Total intergovernmental	<u>2,810,775</u>	<u>2,810,775</u>	<u>2,443,001</u>	<u>(367,774)</u>
Charges for services:				
Parks and recreation	49,907	49,907	57,475	7,568
Police	37,911	37,911	40,864	2,953
Total charges for services	<u>87,818</u>	<u>87,818</u>	<u>98,339</u>	<u>10,521</u>
Fines and forfeitures	286,116	286,116	200,129	(85,987)
Interest earnings	303,790	303,790	111,180	(192,610)
Other revenues:				
Tax audits - interest/penalty	-	-	95,039	95,039
Miscellaneous revenues	108,042	108,042	152,477	44,435
Total other revenues	<u>108,042</u>	<u>108,042</u>	<u>247,516</u>	<u>139,474</u>
Total revenues	<u>11,132,145</u>	<u>11,132,145</u>	<u>11,654,879</u>	<u>522,734</u>
Expenditures				
Current:				
General government:				
City council	61,838	61,838	66,586	(4,748)
City manager	246,222	246,222	259,718	(13,496)
Human resources	1,563,615	1,563,615	1,430,173	133,442
Financial services	376,922	376,922	320,362	56,560
Information technology	453,065	453,065	458,577	(5,512)
Legal	335,289	335,289	318,660	16,629
City Clerk	186,292	186,292	195,043	(8,751)
General services	961,129	1,365,985	1,015,465	350,520
Total general government	<u>4,184,372</u>	<u>4,589,228</u>	<u>4,064,584</u>	<u>524,644</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2011 (Continued)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	2,528,644	2,528,644	2,418,405	110,239
Municipal court	296,510	296,510	245,163	51,347
Total public safety	<u>2,825,154</u>	<u>2,825,154</u>	<u>2,663,568</u>	<u>161,586</u>
Public works:				
Public works	412,502	755,192	729,044	26,148
Total public works	<u>412,502</u>	<u>755,192</u>	<u>729,044</u>	<u>26,148</u>
Economic development:				
Community development	788,847	788,847	791,225	(2,378)
Total economic development	<u>788,847</u>	<u>788,847</u>	<u>791,225</u>	<u>(2,378)</u>
Community services:				
Parks and recreation	657,740	315,050	263,636	51,414
Arts & culture	84,218	84,218	87,185	(2,967)
Community services	921,166	921,166	819,787	101,379
Total community services	<u>1,663,124</u>	<u>1,320,434</u>	<u>1,170,608</u>	<u>149,826</u>
Debt service:				
Principal	362,009	362,009	362,009	-
Interest	556,470	556,470	562,465	(5,995)
Total expenditures	<u>10,792,478</u>	<u>11,197,334</u>	<u>10,343,503</u>	<u>853,831</u>
Excess of revenues over expenditures	<u>339,667</u>	<u>(65,189)</u>	<u>1,311,376</u>	<u>1,376,565</u>
Other financing sources (uses)				
Transfers out	(366,817)	(366,817)	(201,987)	164,830
Transfers in	27,150	27,150	-	(27,150)
Total other financing sources and (uses)	<u>(339,667)</u>	<u>(339,667)</u>	<u>(201,987)</u>	<u>137,680</u>
Net change in fund balance	-	(404,856)	1,109,389	1,514,245
Fund balance - beginning	11,157,413	11,157,413	11,157,413	-
Add Property Management fund	<u>136,636</u>	<u>136,636</u>	<u>136,636</u>	<u>-</u>
Fund balance - ending	<u>\$11,294,049</u>	<u>\$10,889,193</u>	<u>\$12,403,438</u>	<u>\$ 1,514,245</u>

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
Highway User Revenue Special Revenue Fund
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental revenue	\$ 787,124	\$ 787,124	\$ 891,013	\$ 103,889
Interest	61,232	61,232	18,887	(42,345)
Other revenues	-	-	-	-
Total revenues	<u>848,356</u>	<u>848,356</u>	<u>909,900</u>	<u>61,544</u>
EXPENDITURES				
Public works/Streets:				
Salaries, wages and benefits	297,253	297,253	263,346	33,907
Services, supplies and other	<u>1,331,033</u>	<u>1,331,033</u>	<u>868,200</u>	<u>462,833</u>
Total expenditures	<u>1,628,286</u>	<u>1,628,286</u>	<u>1,131,546</u>	<u>496,740</u>
Excess of revenues Over (Under) expenditures	<u>(779,930)</u>	<u>(779,930)</u>	<u>(221,646)</u>	<u>558,284</u>
Other Financing Sources (Uses):				
Transfers out	<u>(17,150)</u>	<u>(17,150)</u>	-	<u>17,150</u>
Total other financing Sources (Uses)	<u>(17,150)</u>	<u>(17,150)</u>	-	<u>17,150</u>
Net change in fund balances	(797,080)	(797,080)	(221,646)	575,434
Fund balance, beginning of year	<u>1,689,791</u>	<u>1,689,791</u>	<u>1,689,791</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 892,711</u></u>	<u><u>\$ 892,711</u></u>	<u><u>\$ 1,468,145</u></u>	<u><u>\$ 575,434</u></u>

The accompanying notes are an integral part of the financial statements.

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

	Business-Type Activities Wastewater Enterprise Fund
Assets	
Current Assets:	
Cash	\$ 17,980,088
Receivables (net of allowance)	
Accounts receivable	547,424
Capacity fees receivable	89,539
Other	80,534
Total current assets	<u>18,697,585</u>
Noncurrent Assets:	
Deferred charges	681,645
Capital Assets (net of depreciation):	
Land	11,159,413
Wastewater system	86,547,037
Machinery, equipment and vehicles	373,048
Total capital assets	<u>98,079,498</u>
Total noncurrent assets	<u>98,761,143</u>
Total Assets	<u>117,458,728</u>
Liabilities	
Current liabilities:	
Accounts payable	504,200
Compensated absences	27,218
Unearned revenue	868,705
Interest payable	5,622,689
Bonds payable - current portion	3,655,000
Total current liabilities	<u>10,677,812</u>
Noncurrent liabilities:	
Bonds payable, net of current portion	<u>44,775,296</u>
Total noncurrent liabilities	<u>44,775,296</u>
Total liabilities	<u>55,453,108</u>
Net Assets	
Invested in capital assets, net of related debt	49,649,202
Unrestricted	12,356,418
Total net assets	<u>\$ 62,005,620</u>

The accompanying notes are an integral part of the financial statements.

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

	Business-Type Activities Wastewater Enterprise Fund
Operating Revenues	
Charges for services	\$ 4,163,044
Other income	9,617
Total operating revenues	4,172,661
Operating Expenses	
Wastewater Administration:	
Salaries, wages and benefits	452,464
Services supplies and other	117,399
Wastewater Construction:	
Non-capitalized construction costs	34,851
Wastewater Treatment Plant:	
Salaries, wages and benefits	644,870
Services supplies and other	1,212,141
Depreciation	2,386,760
Total operating expenses	4,848,485
Operating income (loss)	(675,824)
Non-operating Revenues (Expenses)	
Taxes	5,256,651
Recovery of sales taxes	156,422
Capacity fees	213,250
Investment earnings	134,460
Other	7,380
Interest on long-term debt	(2,649,742)
Issuance costs	(119,915)
Total non-operating revenue (expense)	2,998,506
Change in net assets	2,322,682
Net assets, beginning of year	60,146,431
Prior period adjustment	(463,493)
Net assets, end of year	\$ 62,005,620

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Statement of Cash Flows
Proprietary Fund Types
For the Year Ended June 30, 2011

	Business-Type Activities Wastewater Enterprise Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 5,003,937
Cash received from customers, other	9,617
Cash paid to suppliers	(1,833,681)
Cash paid to employees	(1,097,333)
Cash flows from operating activities	2,082,540
Cash Flows From Noncapital and Related Financing Activities:	
Tax receipts	5,413,073
Cash flows from noncapital and related financing activities	5,413,073
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(3,078,070)
Principal paid on long term debt	(7,046,824)
Interest paid	(3,262,980)
Capacity fees and other	(61,185)
Cash flows from capital and related financing activities	(13,449,059)
Cash Flows From Investing Activities:	
Interest on investments	134,460
Net change in cash and cash equivalents	(5,818,986)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	23,799,073
Cash and cash equivalents, including temporarily restricted cash , end of year	\$ 17,980,087
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net operating income/(loss)	\$ (675,824)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	2,386,760
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	840,893
Increase/(Decrease) in payables	(469,290)
Increase/(Decrease) in accrued wages and compensation	1
Net cash flows from operating activities	\$ 2,082,540

The accompanying notes are an integral part of the financial statements.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

General

The accompanying financial statements include all activities of the City of Sedona, Arizona (the City). The accounting policies of the City conform to U.S. generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The City was incorporated January 4, 1988, under the provisions of Article 13, Sections 1 through 6, of the Constitution of Arizona and Title 9 of the Arizona Revised Statutes. The City operates under a Council-Manager form of government. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The following is a brief review of the component units included in defining the City's reporting entity. There are no discretely presented component units and three blended component units.

Blended component units included within the reporting entity:

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 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 SWMPC bonds. All related receivables and payables between the City and the SMPC have been eliminated. The SWMPC has a June 30 year end and is reported within the governmental fund financial statements.

The **Fairfield and Summit II Community Facilities Districts** (Districts) were formed for the purposes of assisting the City with the financing and providing general infrastructure and capital assets within the District boundaries. The City Council serves as the board of directors for the Districts. As special purpose districts and separate political subdivisions under the Arizona Constitution, the Districts are authorized to levy ad valorem tax on the assessed value of all real and personal property in the district and issue bonds independently of the City. Property owners in the designated areas ore assessed a special CFD tax for the costs of operating the Districts, as defined in the individual development agreements. For financial reporting purposes, transactions of the Districts are combined and reported within the governmental fund financial statements.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Exceptions to this general rule occur when elimination of charges between funds would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are 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 is 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, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The use of financial resources to acquire capital assets is capitalized as assets in the government-wide financial statements, rather than as expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than expenditure in the government-wide financial statements.

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, state shared revenues, licenses 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 general government, except for those required to be accounted for in another fund.

The **Highway User Revenue Fund** accounts for state gasoline taxes that are legally restricted by the State of Arizona for road construction and maintenance.

The **Capital Improvement Fund** is used to account for funds restricted or assigned for major capital projects and engineering studies.

The City reports the following major proprietary funds:

The **Wastewater Fund** accounts for the costs associated with wastewater collection and treatment and associated financing.

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 their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition. 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 Arizona State Treasurer. Additionally, the trustee of the City's employee retirement plan holds certain City funds in a money market mutual fund. All investments are carried at fair value with unrealized gains and losses recorded as adjustments to interest earnings. Fair market values are based on quoted market prices. The reported value of the state treasurer's pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "Internal balances" in the Statement of Net Assets and as "Due to" or "Due from" other funds in the fund financial statements. All trade accounts receivable in the General Fund and proprietary funds are shown net of an allowance for doubtful accounts.

Inventories and Prepaid Items

The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. Inventories for the proprietary fund consist principally of materials used in the repair of the collection and treatment systems and are deemed immaterial and are not reported in the balance sheet.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements, when applicable.

Restricted Assets

Certain revenues such as Highway User revenues, grant revenues and development fees which are restricted for specific use by state law or grantors are classified as restricted assets. Also, certain resources that are set aside for the repayment of debt are classified as restricted assets because their use is limited by applicable bond covenants.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$2,500 and an estimated useful life in excess of one year. AS prescribed by GASB 34 as a phase II government, only infrastructure assets acquired subsequent to 1980 were included in the government-wide financial statements.

Capitalized assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Building	30 years
Improvements Other than Buildings	6 to 50 years
Streets, sidewalks & other infrastructure	20 to 50 years
Wastewater Plant	6 to 50 years
Wastewater Lines	50 Years
Machinery, equipment and Vehicles	3 to 6 years

Compensated Absences

For governmental funds, amounts of vested or accumulated vacation that are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net assets and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements unless they have matured, for example, as a result of employee resignations and retirements. Vested or accumulated vacation in the proprietary fund are recorded as an expense and a liability of that fund as the benefits accrue to the employees and are thus recorded in both the government-wide financial statements and the individual fund financial statements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. 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 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 Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies, Continued

Net Assets and Fund Equity

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When both committed, assigned, or unassigned resources are available for use, it is the City's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

Equity is classified in the government-wide financial statements and in the proprietary fund financial statements as net assets and is displayed in three components as follows:

Invested in capital assets, net of related debt represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets are net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets are all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the City Council. A resolution, ordinance or vote by the City Council is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose in accordance with the City's budget policy.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

NOTE 1. Summary of Significant Accounting Policies, Continued

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the City. The use of budgets and monitoring of equity status facilitate the City's compliance with legal requirements.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. 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 a resolution. 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 financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The City follows a voter-approved alternative expenditure limitation that was adopted in 2004 and extended on November 13, 2007.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Council has adopted a budget transfer policy and all amendments must be done in accordance with this policy.
6. The City has adopted budgets in accordance with A.R.S. requirements and utilizes the budgets as a management control device during the year for the General, Special Revenue, Capital Projects and Enterprise funds. The budgets are prepared on essentially the same

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 2. Stewardship, Compliance, and Accountability, Continued

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 carry-over 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. Supplementary budgetary appropriations were made during the year ended June 30, 2011.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation for future years, is not employed by the City.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Statements of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual report as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2011, if any.

Highway User Revenue Funds

Highway user revenue fund monies received by the City pursuant to title 28, chapter 18, article 2 and other dedicated state transportation revenues received during the current fiscal year have been used solely for authorized transportation purposes.

Note 3. Deposits and Investments

A reconciliation of cash and investments as shown on the statement of net assets is as follows:

Cash and cash equivalents	\$ 34,175,623
Restricted cash and cash equivalents	9,779,475
	<u>\$ 43,955,098</u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. As of June 30, 2011, none of the City's bank balance of \$8,816,891 was exposed to custodial credit risk because it was insured or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 3. Deposits and Investments, Continued

Investments

The Arizona State Treasurer’s Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments.

The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated “P1” by Moody’s investors or “A1” by Standard and Poor’s rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

As of June 30, 2011 the City had the following deposits and investments:

	Fair Value	Credit Rating (1)	Weighted Average Maturity (2)
	<u> </u>	<u> </u>	<u> </u>
Cash on deposit	\$ 8,452,498	N/A	N/A
Cash on hand	1,945	N/A	N/A
U.S. Treasury Notes	8,032,213	N/A	1 -3 Years
Local Governments Investment Pool	<u>27,468,442</u>	N/A	N/A
	<u>\$ 43,955,098</u>		

(1) Ratings are provided where applicable to indicate associated Credit Risk. N/A indicates not applicable.

(2) Interest Rate Risk is estimated using the weighted average days to maturity.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 3. Deposits and Investments, Continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). A.R.S. 35-323 requires that the City's investment portfolio maturities do not exceed five years from the time of purchase. The City's investment policy also limits the City to investments with maturities of six months or less.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City does not have a specific policy related to credit risk; however, the City's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323). A.R.S. 35-323 limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

Note 4. Restricted Assets

Restricted assets consisted of the following at June 30, 2011:

Governmental Activities:

Special Revenue Funds:

Highways and streets	\$ 1,633,028
Grants	18,066
Debt Service	596,228
Development fees	3,202,914

Capital Project Funds:

Bond proceeds	3,375,908
County Flood Control	953,331
	<u>\$ 9,779,475</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year:

Governmental Activities:	Balance 6/30/2010	Additions	Reclass *	Deletions	Balance 6/30/2011
Capital assets, not being depreciated:					
Land	\$ 6,960,501	\$ -	\$ -	\$ -	\$ 6,960,501
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	<u>6,960,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,960,501</u>
Capital assets, being depreciated:					
Land improvements	3,581,109	719,758	896,849	(472,564)	4,725,152
Buildings and improvements	7,010,056	44,442	(547,059)	-	6,507,439
Machinery, equipment and vehicles	5,111,489	333,435	(445,427)	(16,563)	4,982,934
Infrastructure	19,252,288	479,550	95,637	-	19,827,475
Total capital assets, being depreciated	<u>34,954,942</u>	<u>1,577,185</u>	<u>-</u>	<u>(489,127)</u>	<u>36,043,000</u>
Less accumulated depreciation for:					
Land improvements	(1,030,369)	(138,398)	(212,458)	73,544	(1,307,681)
Buildings and improvements	(1,899,698)	(234,022)	64,093	-	(2,069,627)
Machinery, equipment and vehicles	(3,811,626)	(551,165)	157,447	16,563	(4,188,781)
Infrastructure	(5,532,234)	(927,230)	(9,082)	-	(6,468,546)
Total accumulated depreciation	<u>(12,273,927)</u>	<u>(1,850,815)</u>	<u>-</u>	<u>90,107</u>	<u>(14,034,635)</u>
Total capital assets, being depreciated, net	<u>22,681,015</u>	<u>(273,630)</u>	<u>-</u>	<u>(399,020)</u>	<u>22,008,365</u>
Governmental activities capital assets, net	<u>\$ 29,641,516</u>	<u>\$ (273,630)</u>	<u>\$ -</u>	<u>\$ (399,020)</u>	<u>\$ 28,968,866</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental Activities:

General government	\$ 641,210
Public safety	115,173
Public works/streets	942,866
Community services	<u>151,566</u>
Total depreciation expense - governmental activities	<u>\$ 1,850,815</u>

* See footnote 11 regarding reclassifications

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2010	Additions	Reclass *	Deletions	Balance 6/30/2011
Capital assets not being depreciated:					
Land	\$ 11,159,413	\$ -	\$ -	\$ -	\$ 11,159,413
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	<u>11,159,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,159,413</u>
Capital assets being depreciated:					
Wastewater system	110,233,341	3,047,680	(3,214,654)	-	110,066,367
Machinery, equipment and vehicles	1,404,659	30,392	3,214,654	(39,088)	4,610,617
Total capital assets, being depreciated	<u>111,638,000</u>	<u>3,078,072</u>	<u>-</u>	<u>(39,088)</u>	<u>114,676,984</u>
Less accumulated depreciation for:					
Wastewater system	(24,415,980)	(2,318,004)	3,214,654	-	(23,519,330)
Machinery, equipment and vehicles	(993,247)	(68,756)	(3,214,654)	39,088	(4,237,569)
Total accumulated depreciation	<u>(25,409,227)</u>	<u>(2,386,760)</u>	<u>-</u>	<u>39,088</u>	<u>(27,756,899)</u>
Total capital assets, being depreciated, net	<u>86,228,773</u>	<u>691,312</u>	<u>-</u>	<u>-</u>	<u>86,920,085</u>
Business-type activities capital assets, net	<u>\$ 97,388,186</u>	<u>\$ 691,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,079,498</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Business-Type Activities:

Wastewater	\$ 2,386,760
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* See footnote 11 regarding reclassifications

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2011:

	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011	Current Portion
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 11,995,000	\$ -	\$ (340,000)	\$ 11,655,000	\$ 355,000
Deferred Amounts:					
On refunding	(422,653)	-	47,253	(375,400)	-
Premium	245,131	-	(26,543)	218,588	-
Total Revenue Bonds	<u>11,817,478</u>	<u>-</u>	<u>(319,290)</u>	<u>11,498,188</u>	<u>355,000</u>
Other Liabilities:					
Capital leases	86,337	-	(22,009)	64,328	23,130
Compensated absences	349,821	349,821	(349,821)	349,821	316,867
Total Other Liabilities	<u>436,158</u>	<u>349,821</u>	<u>(371,830)</u>	<u>414,149</u>	<u>339,997</u>
Total Governmental Long-Term Debt	<u>\$ 12,253,636</u>	<u>\$ 349,821</u>	<u>\$ (691,120)</u>	<u>\$ 11,912,337</u>	<u>\$ 694,997</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 51,770,000	\$ -	\$ (3,495,000)	\$ 48,275,000	\$ 3,655,000
Deferred Amounts:					
On refunding	(1,306,022)	-	178,514	(1,127,508)	-
Premium	1,541,434	-	(258,631)	1,282,803	-
Total Revenue Bonds	<u>52,005,412</u>	<u>-</u>	<u>(3,575,117)</u>	<u>48,430,295</u>	<u>3,655,000</u>
Other Liabilities:					
Loans payable	605,806	-	(605,806)	-	-
Compensated absences	27,219	27,219	(27,219)	27,218	24,654
Total Other Liabilities	<u>633,025</u>	<u>27,219</u>	<u>(633,025)</u>	<u>27,218</u>	<u>24,654</u>
Total Business-Type Long-Term Debt	<u>\$ 52,638,437</u>	<u>\$ 27,219</u>	<u>\$ (4,208,142)</u>	<u>\$ 48,457,513</u>	<u>\$ 3,679,654</u>
Total Long-Term Liabilities	<u>\$ 64,892,073</u>	<u>\$ 377,040</u>	<u>\$ (4,899,262)</u>	<u>\$ 60,369,850</u>	<u>\$ 4,374,651</u>

For governmental activities, claims and judgments and compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Several of the revenue bonds payable have payment dates that are on July 1 of each year. It is the City's policy to provide payment for these obligations on or before June 30 of each year. Thus, these early debt service payments have been recognized as expenditures and related reductions in liabilities. The City plans to continue using the "early recognition" option in accordance with governmental accounting standards in all future years.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 6. Long-Term Debt, Continued

The following is a listing of revenue obligation bonds outstanding as of June 30, 2011:

Excise Tax Revenue Bonds:

Excise Tax Revenue Obligations, Series 1998; original issue \$41.0 million, interest at 4.40 to 5.375% maturing July 1, 2027, for construction and improvements of the wastewater system.	\$ 15,540,000
Excise Tax Revenue Obligations, Series 2002; original issue \$2.8 million, interest at 4.30 to 4.45% maturing July 1, 2012, for construction and improvements of the wastewater system.	280,000
Excise Tax Revenue Obligations, Series 2004; original issue \$14.5 million, interest at 5.0% maturing July 1, 2012, used to refund Sewer Revenue Refunding Bonds, Series 1992.	2,290,000
Excise Tax Revenue Obligations, Second Series 2004; original issue \$4.6 million governmental, \$13.86 million business-type, interest at 4.0 to 5.0% maturing July 1, 2017, used to refund Sewer Revenue Bonds, Series A (1990).	
Principal balance outstanding - Governmental	2,860,000
Principal balance outstanding - Business-type	13,860,000
Excise Tax Revenue Obligations, Series 2005; original issue \$11.3 million, interest at 3.50 to 5.25% maturing July 1, 2019, used to refund Excise Tax Revenue Bonds, Series 1998.	10,500,000
Excise Tax Revenue Obligations, Series 2007; original issue \$8.795 million governmental, \$9.12 million business-type, interest at 4.0 to 5.0% maturing July 1, 2027, for improvements of the wastewater system.	
Principal balance outstanding - Governmental	8,795,000
Principal balance outstanding - Business-type	5,805,000
Total Revenue Bonds Payable	<u>\$ 59,930,000</u>
Classification by type:	
Governmental-type Activities	\$ 11,655,000
Business-type Activities	48,275,000
Total Revenue Bonds Payable	<u>\$ 59,930,000</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 6. Long-Term Debt, Continued

The City has pledged future excise taxes to repay the governmental excise tax revenue obligations as listed above. Proceeds of the bonds were used for various construction improvements and to refund and refinance various bonds and certificates of participation. The bonds are payable solely from excise taxes. Maturity dates are from July 1, 2012 to July 1, 2027. Annual principal and interest payments on the bonds are expected to require less than 2.3% to 12.9% of net excise tax revenues for each individual bond.

The remaining Excise Tax Revenue Bond debt service maturities are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	355,000	531,079	3,655,000	1,992,285
2013	330,000	517,767	3,880,000	1,822,451
2014	330,000	501,266	4,075,000	1,637,551
2015	345,000	484,767	3,775,000	1,443,251
2016	345,000	467,516	4,605,000	1,264,351
2017-2021	4,205,000	1,864,686	15,475,000	9,304,491
2022-2026	4,675,000	918,775	12,400,000	11,343,590
2027	1,070,000	48,150	410,000	19,475
Totals	<u>\$ 11,655,000</u>	<u>\$ 5,334,006</u>	<u>\$ 48,275,000</u>	<u>\$ 28,827,445</u>

Total principal and interest paid on the excise tax revenue bonds for the current year and total excise taxes were as follows:

Total principal and interest paid during the year	\$ 5,647,716
Total excise taxes current year	\$ 12,900,651

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, 2011, the amount of defeased debt outstanding but removed from the City's financial statements was \$32,160,000.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 6. Long-Term Debt, Continued

Obligations under Capital Leases

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

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2011 are as follows:

Year Ending June 30		
2012	\$	25,809
2013		25,809
2014		17,206
Total remaining minimum lease payments		68,824
Less amount representing interest		4,496
Present value of net remaining minimum lease payments		\$ 64,328

Assets Acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 114,032
Less: Accumulated depreciation	(73,522)
Total	\$ 40,510

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2011, there were no interfund receivables and payables recorded to eliminate short-term deficit pooled cash balances in the various funds.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 7. Interfund Receivables, Payables and Transfers, Continued

Interfund transfers for the fiscal year ended June 30, 2011 are as follows:

	Transfers in:		
Transfers out:	Capital Improvement Fund	Nonmajor Governmental Funds	Total
General Fund	\$ 131,034	\$ 70,953	\$ 201,987
Capital Improvement Fund	-	114,138	114,138
Total	\$ 131,034	\$ 185,091	\$ 316,125

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 8. Risk Management

The City 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, a public entity risk pool currently operating as a common risk management and insurance and workers' compensation program for approximately 73 members. 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 insurance coverage reduction in insurance coverage occurred during the year and not settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member's 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 member's 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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 9. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. 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) 240-2002 or (800) 621-3778. www.azasrs.gov

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the current fiscal year, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement, and 0.25 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

The City's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	\$ 355,660	\$ 46,390	\$ 22,091
2010	447,431	53,759	27,999
2011	374,679	24,535	10,396

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment administrative agent, is governed by a five-member board, known as the Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS 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, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575. www.psprs.com

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 9. Retirement and Pension Plans, Continued

Funding Policy - The PSPRS contribution requirements for the year ended June 30, 2011 were established by the June 30, 2010 actuarial valuations using the projected unit credit method. For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 13.98 percent of covered compensation. The health insurance premium portion of the contribution rate was actuarially set at 1.02 percent of covered payroll.

Actuarial Methods and Assumptions - The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The actuarial assumptions include (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.0 to 8.0 percent per year. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. Projections of benefits are based on the substantive plan in effect at the time of each valuation and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The 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, 2011, was 25 years for unfunded actuarial accrued liability and 20 years for excess.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. Actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made.

Annual Pension/OPEB Cost - During the year ended June 30, 2011 the City's annual pension cost of \$247,359 and the annual OPEB cost of \$21,131 was equal to the City's required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2009	\$ 236,213	100%	\$ -
	2010	199,528	100%	-
	2011	247,359	100%	-
Health Insurance	2009	\$ 19,343	100%	\$ -
	2010	15,909	100%	-
	2011	21,131	100%	-

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2011

Note 9. Retirement and Pension Plans, Continued

Funded Status and Funding Progress for the current fiscal year and additional historical trend information for the PSPRS plan is disclosed on page 46 as required supplementary information. The schedule presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 10. Contingent Liabilities and Commitments

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney with respect to such litigation, such matters will not have a material adverse effect on the City's financial position at June 30, 2011.

The City receives federal and state funding for specific purposes that are subject to review and audit by the grantor agencies. Such audits could result in disallowances under the terms of the grants. There are no required disbursements identified or recorded at the date of these financial statements.

Note 11. Prior Period Adjustments

Government-wide statements and proprietary funds statements:

The City conducted various capital asset reconciliations at the conclusion of the current fiscal year and determined that adjustments were necessary for disposal of various obsolete assets as well as various reclassifications. The net result was a \$390,212 decrease to net assets for governmental activities as reported on the statement of activities.

The City determined at the conclusion of the current fiscal year that the allowance for doubtful accounts for the wastewater fund should be recorded, which in previous years was deemed to be immaterial. Also, the City determined that an accrual for interest payable and related debt service funds were incorrectly reported in prior years. The net result of these two adjustments and other minor corrections was a \$463,493 decrease in net assets of the wastewater fund.

Governmental funds:

The Property Management fund was reported as a separate special revenue fund in prior years. The Property Management fund is now reported within the General fund. This resulted in a \$136,636 increase in the General fund balance.

County flood control receipts totaling \$953,331 that were not expended in previous years were reported on the balance sheet as deferred revenue of the Capital Improvement fund. Since these revenues are measurable and available for spending, they have been reported as fund balance.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
PSPRS

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2008 through June 30, 2011, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2008	\$ 3,904,613	\$ 4,717,839	813,226	82.8%	\$ 1,807,796	45.0%
2009	4,442,403	5,224,450	782,047	85.0%	1,861,306	42.0%
2010	4,841,895	5,333,073	491,178	90.8%	1,700,239	28.9%
2011	4,973,183	5,992,191	1,019,008	83.0%	1,237,609	82.3%

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2008	\$ -	\$ 129,102	129,102	0.0%	\$ 1,807,796	7.1%
2009	-	147,246	147,246	0.0%	1,861,306	7.9%
2010	-	163,509	163,509	0.0%	1,700,239	9.6%
2011	-	137,410	137,410	0.0%	1,237,609	11.1%

Health insurance subsidy payments reported for fiscal year 2011: \$0

SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
FOR THE FOLLOWING MAJOR FUNDS:

Capital Project Funds

- The **Capital Improvement Fund** is used to account for federal, state and local grants and other assigned resources which are utilized for the City's major capital projects and engineering studies.

Enterprise Funds

- The **Wastewater Fund** is used to account for charges for services and related resources which are utilized for the costs to operate, construct and finance the City's wastewater treatment system.

CITY OF SEDONA, ARIZONA
CAPITAL IMPROVEMENT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 188,111	\$ 188,111	\$ 578,971	\$ 390,860
Interest	77,914	77,914	41,403	(36,511)
Other	-	-	44,784	44,784
Total revenues	<u>266,025</u>	<u>266,025</u>	<u>665,158</u>	<u>399,133</u>
EXPENDITURES				
Capital outlay	<u>\$ 806,331</u>	<u>\$ 806,331</u>	<u>\$ 495,433</u>	<u>\$ 310,898</u>
Total expenditures	<u>806,331</u>	<u>806,331</u>	<u>495,433</u>	<u>310,898</u>
Excess of revenues				
Over (Under) expenditures	(540,306)	(540,306)	169,725	710,031
Other Financing Sources (Uses):				
Transfers out	(154,500)	(154,500)	(114,138)	40,362
Transfers in	<u>679,806</u>	<u>679,806</u>	<u>131,034</u>	<u>(548,772)</u>
Total other financing Sources (Uses)	<u>525,306</u>	<u>525,306</u>	<u>16,896</u>	<u>(508,410)</u>
Net change in fund balances	(15,000)	(15,000)	186,621	201,621
Fund balance, beginning of year	6,958,361	6,958,361	6,958,361	-
Prior period adjustment	<u>953,331</u>	<u>953,331</u>	<u>953,331</u>	<u>-</u>
Fund balance, end of year	<u>\$ 7,896,692</u>	<u>\$ 7,896,692</u>	<u>\$ 8,098,313</u>	<u>\$ 201,621</u>

CITY OF SEDONA, ARIZONA
WASTEWATER ENTERPRISE FUND
Schedule of Revenues, Expenditures and Changes in Net Assets
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 3,963,578	\$ 3,963,578	\$ 4,163,044	\$ 199,466
Capacity fees	535,000	535,000	213,250	(321,750)
Taxes	4,493,144	4,493,144	5,256,651	763,507
Recovery of sales taxes	-	-	156,422	156,422
Investment earnings	740,587	740,587	134,460	(606,127)
Other income	35,280	35,280	16,998	(18,282)
Total revenues	9,767,589	9,767,589	9,940,825	173,236
Expenses				
Wastewater Administration:				
Salaries, wages and benefits	391,424	391,424	452,464	(61,040)
Services supplies and other	125,681	125,681	117,399	8,282
Wastewater Construction	3,452,952	3,452,952	3,112,921	340,031
Wastewater Treatment Plant:				
Salaries, wages and benefits	549,599	549,599	644,870	(95,271)
Services supplies and other	1,885,173	1,480,317	1,212,141	268,176
Debt service	5,787,012	5,787,012	9,696,566	(3,909,554)
Total expenses	12,191,841	11,786,985	15,236,361	(3,449,376)
Excess (deficiency) of revenues over expenses	(2,424,252)	(2,019,396)	(5,295,536)	3,622,612
Other Financing Sources (Uses)				
Debt issues	121,161	121,161	-	(121,161)
Total other financing sources (uses)	121,161	121,161	-	(121,161)
Change in net assets	(2,303,091)	(1,898,235)	(5,295,536)	3,501,451
Net assets, beginning of year	37,875,393	37,875,393	37,875,393	-
Net assets, end of year	<u>\$ 35,572,302</u>	<u>\$ 35,977,158</u>	<u>\$ 32,579,857</u>	<u>\$ 3,501,451</u>

Reconciliation to Net Assets per Statement of Revenues, Expenses and Changes in Net Assets:

Net assets, end of year, budgetary basis	32,579,857
Adjustments to reconcile to net assets:	
Adjustment for differences reported in previous years	22,271,037
Prior period adjustment	(463,493)
Adjustments for current year:	
Depreciation	(2,386,760)
Capital outlay	3,078,070
Principal paid on long term debt	7,046,824
Issuance costs	<u>(119,915)</u>
Net assets, end of year	<u>\$ 62,005,620</u>

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SUPPLEMENTARY INFORMATION
COMBINING STATEMENTS
AND BUDGETARY COMPARISON SCHEDULES
NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- The **Grants** fund is used to account for federal, state and other grants and contributions which are restricted for a specific use.
- The **Summit II Community Facilities District (CFD)** fund is used to account 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.
- The **Fairfield Community Facilities District (CFD)** fund is used to account for the operations of the Fairfield Community Facilities District that provides general infrastructure and capital assets for the property within the District's boundaries.
- The **Arts** fund is used to account for monies received from the estate of Stella Carruth and other assigned resources which are used for park and recreation improvements.

Capital Project Funds

- The **Development Impact Fee** fund is used to account for development impact fees earmarked for costs incurred by the City, generally for capital acquisition or related debt service necessitated by new development. The City'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 municipality develop plans indicating a good faith intent to use the fees to provide services within a reasonable time.
- The **Information Systems** fund is used to account for resources assigned for capital improvements to the City's information systems.

CITY OF SEDONA, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
ASSETS				
Cash	\$ -	\$ -	\$ -	\$ 73,804
Receivables:				
Taxes	-	-	34,031	-
Intergovernmental	227,577	-	-	-
Restricted Cash	18,066	21,525	574,703	-
Total assets	<u>\$ 245,643</u>	<u>\$ 21,525</u>	<u>\$ 608,734</u>	<u>\$ 73,804</u>
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 67,196	\$ 21,525	\$ 5,000	\$ -
Deferred revenues	2,909	-	-	-
Total liabilities	<u>70,105</u>	<u>21,525</u>	<u>5,000</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Public safety	175,538	-	-	-
Community services	-	-	603,734	-
Capital outlay	-	-	-	-
Committed to:				
Community services	-	-	-	73,804
Total fund balances	<u>175,538</u>	<u>-</u>	<u>603,734</u>	<u>73,804</u>
Total liabilities and fund balances	<u>\$ 245,643</u>	<u>\$ 21,525</u>	<u>\$ 608,734</u>	<u>\$ 73,804</u>

<u>Capital Project</u>		Total
<u>Development</u>	<u>Information</u>	<u>Nonmajor</u>
<u>Impact Fee</u>	<u>Systems</u>	<u>Governmental</u>
		<u>Funds</u>
\$ -	\$ 4,475	\$ 78,279
-	-	34,031
-	-	227,577
<u>3,202,914</u>	<u>-</u>	<u>3,817,208</u>
<u>\$ 3,202,914</u>	<u>\$ 4,475</u>	<u>\$ 4,157,095</u>
\$ 105,338	\$ 4,475	\$ 203,534
-	-	2,909
<u>105,338</u>	<u>4,475</u>	<u>206,443</u>
-	-	175,538
-	-	603,734
3,097,576	-	3,097,576
-	-	73,804
<u>3,097,576</u>	<u>-</u>	<u>3,950,652</u>
<u>\$ 3,202,914</u>	<u>\$ 4,475</u>	<u>\$ 4,157,095</u>

CITY OF SEDONA, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
REVENUES:				
Taxes	\$ -	\$ -	\$ 163,434	\$ -
Intergovernmental	560,998	-	-	-
Contributions/donations	6,452	-	-	-
Impact fees	-	-	-	-
Investment earnings	-	3,319	2,702	242
Total revenues	<u>567,450</u>	<u>3,319</u>	<u>166,136</u>	<u>242</u>
EXPENDITURES:				
Current:				
General government	-	25,917	16,610	-
Public safety	280,518	-	-	-
Public works/Streets	160,433	-	-	-
Economic development	3,780	-	-	-
Community services	93,871	56,204	265,483	51,095
Capital outlay	-	-	-	-
Total expenditures	<u>538,602</u>	<u>82,121</u>	<u>282,093</u>	<u>51,095</u>
Excess of revenues				
Over (under) expenditures	<u>28,848</u>	<u>(78,802)</u>	<u>(115,957)</u>	<u>(50,853)</u>
Other Financing Sources (Uses):				
Transfers in	<u>26,568</u>	<u>44,385</u>	<u>-</u>	<u>9,548</u>
Total other financing sources (uses):	<u>26,568</u>	<u>44,385</u>	<u>-</u>	<u>9,548</u>
Net change in fund balances	55,416	(34,417)	(115,957)	(41,305)
Fund balances, beginning of year	<u>120,122</u>	<u>34,417</u>	<u>719,691</u>	<u>115,109</u>
Fund balances, end of year	<u>\$ 175,538</u>	<u>\$ -</u>	<u>\$ 603,734</u>	<u>\$ 73,804</u>

<u>Capital Project</u>		<u>Total</u>
<u>Development</u>	<u>Information</u>	<u>Nonmajor</u>
<u>Impact Fee</u>	<u>Systems</u>	<u>Governmental</u>
		<u>Funds</u>
\$ -	\$ -	\$ 163,434
-	-	560,998
-	-	6,452
154,162	-	154,162
44,053	-	50,316
<u>198,215</u>	<u>-</u>	<u>935,362</u>
-	119,604	162,131
-	3,104	283,622
-	10,000	170,433
-	-	3,780
-	17,119	483,772
<u>145,156</u>	<u>-</u>	<u>145,156</u>
<u>145,156</u>	<u>149,827</u>	<u>1,248,894</u>
<u>53,059</u>	<u>(149,827)</u>	<u>(313,532)</u>
<u>-</u>	<u>104,590</u>	<u>185,091</u>
<u>-</u>	<u>104,590</u>	<u>185,091</u>
53,059	(45,237)	(128,441)
<u>3,044,517</u>	<u>45,237</u>	<u>4,079,093</u>
<u>\$ 3,097,576</u>	<u>\$ -</u>	<u>\$ 3,950,652</u>

CITY OF SEDONA, ARIZONA
GRANTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 2,798,991	\$ 2,798,991	\$ 560,998	\$(2,237,993)
Contributions/donations	4,000	4,000	6,452	2,452
Total revenues	<u>2,802,991</u>	<u>2,802,991</u>	<u>567,450</u>	<u>(2,235,541)</u>
EXPENDITURES				
Current:				
General government	1,000,000	1,000,000	-	1,000,000
Public safety	1,191,091	1,191,091	280,518	910,573
Public works/streets	406,280	406,280	160,433	245,847
Economic development	304,000	304,000	3,780	300,220
Community services	121,664	121,664	93,871	27,793
Total expenditures	<u>3,023,035</u>	<u>3,023,035</u>	<u>538,602</u>	<u>2,484,433</u>
Excess of revenues				
Over (Under) expenditures	(220,044)	(220,044)	28,848	248,892
Other Financing Sources (Uses):				
Transfers in	1,600	1,600	26,568	24,968
Total other financing Sources (Uses)	<u>1,600</u>	<u>1,600</u>	<u>26,568</u>	<u>24,968</u>
Net change in fund balance	(218,444)	(218,444)	55,416	273,860
Fund balance, beginning of year	<u>120,122</u>	<u>120,122</u>	<u>120,122</u>	<u>-</u>
Fund balance, end of year	<u>\$ (98,322)</u>	<u>\$ (98,322)</u>	<u>\$ 175,538</u>	<u>\$ 273,860</u>

CITY OF SEDONA, ARIZONA
SUMMIT II COMMUNITY FACILITIES DISTRICT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 119,308	\$ 119,308	\$ -	\$ (119,308)
Interest	9,039	9,039	3,319	(5,720)
Total revenues	<u>128,347</u>	<u>128,347</u>	<u>3,319</u>	<u>(5,720)</u>
EXPENDITURES				
Current:				
General government	\$ 48,540	\$ 48,540	\$ 25,917	\$ 22,623
Public works/streets	17,500	17,500	-	17,500
Community services	71,210	71,210	56,204	15,006
Total expenditures	<u>137,250</u>	<u>137,250</u>	<u>82,121</u>	<u>55,129</u>
Excess of revenues				
Over (Under) expenditures	(8,903)	(8,903)	(78,802)	(69,899)
Other Financing Sources (Uses):				
Transfers out	314,989	314,989	-	(314,989)
Transfers in	<u>-</u>	<u>-</u>	<u>44,385</u>	<u>44,385</u>
Total other financing Sources (Uses)	<u>314,989</u>	<u>314,989</u>	<u>44,385</u>	<u>(270,604)</u>
Net change in fund balance	306,086	306,086	(34,417)	(340,503)
Fund balance, beginning of year	<u>34,417</u>	<u>34,417</u>	<u>34,417</u>	<u>-</u>
Fund balance, end of year	<u>\$ 340,503</u>	<u>\$ 340,503</u>	<u>\$ -</u>	<u>\$ (340,503)</u>

CITY OF SEDONA, ARIZONA
FAIRFIELD COMMUNITY FACILITIES DISTRICT
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 80,644	\$ 80,644	\$ 163,434	\$ 82,790
Interest	9,258	9,258	2,702	(6,556)
Total revenues	<u>89,902</u>	<u>89,902</u>	<u>166,136</u>	<u>76,234</u>
EXPENDITURES				
Current:				
General government	\$ 40,360	\$ 40,360	\$ 16,610	\$ 23,750
Public works/streets	17,500	17,500	-	17,500
Community services	<u>296,000</u>	<u>296,000</u>	<u>265,483</u>	<u>30,517</u>
Total expenditures	<u>353,860</u>	<u>353,860</u>	<u>282,093</u>	<u>71,767</u>
Excess of revenues				
Over (Under) expenditures	(263,958)	(263,958)	(115,957)	148,001
Fund balance, beginning of year	<u>719,691</u>	<u>719,691</u>	<u>719,691</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 455,733</u></u>	<u><u>\$ 455,733</u></u>	<u><u>\$ 603,734</u></u>	<u><u>\$ 148,001</u></u>

CITY OF SEDONA, ARIZONA
ARTS
SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 750	\$ 750	\$ 242	\$ (508)
Total revenues	<u>750</u>	<u>750</u>	<u>242</u>	<u>(508)</u>
EXPENDITURES				
Current:				
Community services	\$ 125,000	\$ 125,000	\$ 51,095	\$ 73,905
Total expenditures	<u>125,000</u>	<u>125,000</u>	<u>51,095</u>	<u>73,905</u>
Excess of revenues				
Over (Under) expenditures	(124,250)	(124,250)	(50,853)	73,397
Other Financing Sources (Uses):				
Transfers in	<u>25,000</u>	<u>25,000</u>	<u>9,548</u>	<u>(15,452)</u>
Total other financing Sources (Uses)	<u>25,000</u>	<u>25,000</u>	<u>9,548</u>	<u>(15,452)</u>
Net change in fund balance	(99,250)	(99,250)	(41,305)	57,945
Fund balance, beginning of year	<u>115,109</u>	<u>115,109</u>	<u>115,109</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 15,859</u></u>	<u><u>\$ 15,859</u></u>	<u><u>\$ 73,804</u></u>	<u><u>\$ 57,945</u></u>

**CITY OF SEDONA, ARIZONA
DEVELOPMENT IMPACT FEE
CAPITAL PROJECT FUND**
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Impact fees	\$ 236,517	\$ 236,517	\$ 154,162	\$ (82,355)
Interest	61,136	61,136	44,053	(17,083)
Total revenues	<u>297,653</u>	<u>297,653</u>	<u>198,215</u>	<u>(99,438)</u>
EXPENDITURES				
Capital outlay	<u>1,528,500</u>	<u>1,528,500</u>	<u>145,156</u>	<u>1,383,344</u>
Total expenditures	<u>1,528,500</u>	<u>1,528,500</u>	<u>145,156</u>	<u>1,383,344</u>
Excess of revenues Over (Under) expenditures	(1,230,847)	(1,230,847)	53,059	1,283,906
Fund balance, beginning of year	<u>3,044,517</u>	<u>3,044,517</u>	<u>3,044,517</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,813,670</u></u>	<u><u>\$ 1,813,670</u></u>	<u><u>\$ 3,097,576</u></u>	<u><u>\$ 1,283,906</u></u>

**CITY OF SEDONA, ARIZONA
INFORMATION SYSTEMS
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
General government	123,000	123,000	119,604	3,396
Public safety	3,500	3,500	3,104	396
Public works/streets	10,000	10,000	10,000	-
Community services	18,000	18,000	17,119	881
Total expenditures	<u>154,500</u>	<u>154,500</u>	<u>149,827</u>	<u>4,673</u>
Excess of revenues				
Over (Under) expenditures	(154,500)	(154,500)	(149,827)	4,673
Other Financing Sources (Uses):				
Transfers in	<u>154,500</u>	<u>154,500</u>	<u>104,590</u>	<u>(49,910)</u>
Total other financing Sources (Uses)	<u>154,500</u>	<u>154,500</u>	<u>104,590</u>	<u>(49,910)</u>
Net change in fund balance	-	-	(45,237)	(45,237)
Fund balance, beginning of year	<u>45,237</u>	<u>45,237</u>	<u>45,237</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 45,237</u></u>	<u><u>\$ 45,237</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (45,237)</u></u>

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STATISTICAL SECTION

This part of the City of Sedona’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information says about the government’s overall financial health.

Contents	Page
Financial Trends	65
<i>These schedules contain trend information to help the reader understand how the government’s financial performance and well being have changed over time.</i>	
Revenue Capacity	70
<i>These schedules contain information to help the reader assess the government’s property taxes and the most significant local revenues source, the sales tax.</i>	
Debt Capacity	74
<i>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.</i>	
Demographic and Economic Information.....	78
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information	81
<i>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.</i>	

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CITY OF SEDONA, ARIZONA
Financial Trends
Net Assets by Component
Last Ten Fiscal Years (Unaudited)
(accrual basis of accounting)

	Fiscal Year									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities										
Invested in capital assets, net of related debt	N/A	\$ 7,264,548	\$ 11,727,832	\$ 11,652,240	\$ 21,268,258	\$ 24,794,010	\$ 26,187,433	\$ 21,797,059	\$ 21,081,629	\$ 17,056,529
Restricted		2,555,706	2,574,064	-	10,154,808	7,469,407	7,688,303	10,987,109	9,929,271	9,048,404
Unrestricted		16,813,296	16,120,102	20,462,779	10,915,131	11,297,441	11,844,887	10,631,798	12,024,471	17,799,316
Total governmental activities net assets	\$ -	\$ 26,633,550	\$ 30,421,998	\$ 32,115,019	\$ 42,338,197	\$ 43,560,858	\$ 45,720,623	\$ 43,415,966	\$ 43,035,371	\$ 43,904,249
Business-type activities										
Invested in capital assets, net of related debt	N/A	\$ 14,370,190	\$ 16,493,366	\$ 19,615,856	\$ 20,547,320	\$ 28,405,751	\$ 31,881,724	\$ 39,941,637	\$ 46,616,756	\$ 49,649,202
Unrestricted		1,081,883	1,096,724	1,123,821	1,175,288	1,240,451	587,477	100,818	92,327	-
Total Business-type activities net assets	\$ -	\$ 37,092,793	\$ 40,597,620	\$ 44,865,662	\$ 49,882,441	\$ 54,371,541	\$ 57,372,294	\$ 58,654,167	\$ 60,146,431	\$ 62,005,620
Primary government										
Invested in capital assets, net of related debt	N/A	\$ 21,634,738	\$ 28,221,198	\$ 31,268,096	\$ 41,815,578	\$ 53,199,761	\$ 58,069,157	\$ 61,738,696	\$ 67,698,385	\$ 66,705,731
Restricted	-	3,637,589	3,670,788	1,123,821	11,330,096	8,709,858	8,275,780	11,087,927	10,021,598	9,048,404
Unrestricted	-	38,454,016	39,127,632	44,588,764	39,074,964	36,022,780	36,747,980	29,243,510	25,461,819	30,155,734
Total primary government net assets	\$ -	\$ 63,726,343	\$ 71,019,618	\$ 76,980,681	\$ 92,220,638	\$ 97,932,399	\$ 103,092,917	\$ 102,070,133	\$ 103,181,802	\$ 105,909,869

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF SEDONA, ARIZONA
Financial Trends
Changes in Net Assets
Last Ten Fiscal Years (Unaudited)
(accrual basis of accounting)

Expenses	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities:										
General government	\$ -	\$ 4,459,562	\$ 6,248,305	\$ 7,025,659	\$ 7,645,680	\$ 7,881,431	\$ 7,600,727	\$ 8,608,913	\$ 7,445,612	\$ 5,688,858
Public safety	-	2,090,752	2,253,638	2,965,862	3,227,579	3,310,253	3,717,862	3,643,936	3,618,539	3,009,197
Highways and streets	-	1,003,069	1,848,067	2,194,094	2,360,817	3,307,737	2,449,337	5,620,499	4,899,328	2,531,632
Community services	-	245,989	148,340	497,465	648,177	789,371	1,058,508	1,037,534	815,848	1,357,077
Interest on long-term debt	-	82,610	72,119	60,907	96,414	256,297	309,469	755,167	636,191	583,175
Total governmental activities expenses	-	7,881,982	10,570,469	12,743,987	13,978,667	15,545,089	15,135,903	19,666,049	17,415,518	13,169,939
Business-type activities:										
Wastewater	-	6,014,503	6,095,517	4,555,335	7,926,004	6,835,822	7,802,135	8,197,653	7,773,970	7,618,142
Total business-type activities expenses	-	6,014,503	6,095,517	4,555,335	7,926,004	6,835,822	7,802,135	8,197,653	7,773,970	7,618,142
Total primary government expenses	\$ -	\$ 13,896,485	\$ 16,665,986	\$ 17,299,322	\$ 21,904,671	\$ 22,380,911	\$ 22,938,038	\$ 27,863,702	\$ 25,189,488	\$ 20,788,081
Program Revenues										
Governmental Activities:										
Charges for services:										
General government		795,419	788,806	1,138,189	700,352	673,643	687,888	705,542	717,236	189,417
Public safety		12,492	14,901	14,211	12,282	9,257	52,491	96,472	42,929	200,129
Highways and streets		278,407	449,871	416,376	292,668	276,348	364,474	200,290	159,839	139,856
Community services		42,361	34,253	36,728	30,646	39,557	40,590	103,587	124,140	57,475
Interest on long-term debt	-	-	-	47,620	38,704	26,735	17,340	5,553	-	-
Operating grants and contributions	-	1,343,015	1,383,327	2,053,940	2,124,857	1,923,645	1,844,555	2,024,396	2,185,565	1,732,206
Capital grants and contributions	-	241,663	1,968,924	367,035	783,213	523,562	550,975	337,391	426,903	918,037
Total governmental activities program revenues	-	2,713,357	4,640,082	4,074,099	3,982,722	3,472,747	3,558,313	3,473,231	3,656,612	3,237,120
Business-type activities:										
Charges for services:										
Wastewater	-	4,310,845	4,126,995	3,193,393	6,352,468	4,098,647	3,696,431	3,789,413	4,335,777	4,393,291
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	-	4,310,845	4,126,995	3,193,393	6,352,468	4,098,647	3,696,431	3,789,413	4,335,777	4,393,291
Total primary government program revenues	\$ -	\$ 7,024,202	\$ 8,767,077	\$ 7,267,492	\$ 10,335,190	\$ 7,571,394	\$ 7,254,744	\$ 7,262,644	\$ 7,992,389	\$ 7,630,411

(continued)

CITY OF SEDONA, ARIZONA
Changes in Net Assets
Last Ten Fiscal Years
(Continued)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Net (expense)/revenue										
Governmental activities	\$ -	\$ (5,168,625)	\$ (5,930,387)	\$ (8,669,888)	\$ (9,995,945)	\$ (12,072,342)	\$ (11,577,590)	\$ (16,192,818)	\$ (13,758,906)	\$ (9,932,819)
Business-type activities	-	(1,703,658)	(1,968,522)	(1,361,942)	(1,573,536)	(2,737,175)	(4,105,704)	(4,408,240)	(3,438,193)	(3,224,851)
Total primary government net expense	\$ -	\$ (6,872,283)	\$ (7,898,909)	\$ (10,031,830)	\$ (11,569,481)	\$ (14,809,517)	\$ (15,683,294)	\$ (20,601,058)	\$ (17,197,099)	\$ (13,157,670)
General Revenues and Other										
Changes in Net Assets										
Governmental activities:										
Taxes:										
Sales taxes	\$ -	\$ 6,103,167	\$ 6,501,598	\$ 6,558,330	\$ 8,356,298	\$ 8,432,983	8,571,160	\$ 8,097,544	\$ 7,208,703	\$ 7,799,486
Special CFD tax	-	128,527	178,613	189,610	239,402	248,220	304,252	569,667	393,293	-
Franchise taxes	-	521,916	560,683	564,575	591,055	640,752	667,237	661,177	666,326	699,088
State revenue sharing	-	1,084,746	919,006	936,926	1,067,096	1,241,513	1,538,883	1,637,088	1,411,823	1,064,334
State sales taxes	-	797,094	857,455	944,190	1,082,364	1,039,344	1,004,970	870,023	802,470	830,562
Auto-in-lieu	-	697,320	548,663	579,030	654,636	603,640	585,027	593,707	551,996	543,380
Investment earnings	-	(270,533)	147,336	446,834	880,958	1,044,373	1,021,475	735,011	533,139	166,085
Other	-	18,310	5,481	13,414	62,441	44,178	44,351	244,088	1,405,705	88,974
Transfers	-	-	-	130,000	-	-	-	479,856	404,856	-
Total governmental activities	-	9,080,547	9,718,835	10,362,909	12,934,250	13,295,003	13,737,355	13,888,161	13,378,311	11,191,909
Business-type activities:										
Sales taxes	-	4,862,350	5,215,879	5,120,991	5,541,642	5,732,824	5,683,318	5,435,186	4,925,801	5,413,073
Investment earnings	-	(193,905)	257,470	638,993	1,048,673	1,493,451	1,423,139	734,783	409,512	134,460
Transfers	-	-	-	(130,000)	-	-	-	(479,856)	(404,856)	-
Total business-type activities	-	4,668,445	5,473,349	5,629,984	6,590,315	7,226,275	7,106,457	5,690,113	4,930,457	5,547,533
Total Primary government	\$ -	\$ 13,748,992	\$ 15,192,184	\$ 15,992,893	\$ 19,524,565	\$ 20,521,278	\$ 20,843,812	\$ 19,578,274	\$ 18,308,768	\$ 16,739,442
Change in Net Asset										
Governmental activities	\$ -	\$ 3,911,922	\$ 3,788,448	\$ 1,693,021	\$ 2,938,305	\$ 1,222,661	\$ 2,159,765	\$ (2,304,657)	\$ (380,595)	\$ 1,259,090
Business-type activities	-	2,964,787	3,504,827	4,268,042	5,016,779	4,489,100	3,000,753	1,281,873	1,492,264	2,322,682
Total primary government	\$ -	\$ 6,876,709	\$ 7,293,275	\$ 5,961,063	\$ 7,955,084	\$ 5,711,761	\$ 5,160,518	\$ (1,022,784)	\$ 1,111,669	\$ 3,581,772

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF SEDONA, ARIZONA
Financial Trends
Fund Balances of Governmental Funds
Last Ten Fiscal Years (Unaudited)
(modified accrual basis of accounting)

	Fiscal Year									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General fund										
Restricted	\$ 461,192	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	7,998,042	8,145,901	8,712,623	8,933,380	9,883,448	10,163,442	10,273,435	9,468,179	11,157,413	12,403,438
Total general fund	\$ 8,459,234	\$ 8,145,901	\$ 8,712,623	\$ 8,933,380	\$ 9,883,448	\$ 10,163,442	\$ 10,273,435	\$ 9,468,179	\$ 11,157,413	\$ 12,403,438
All other governmental funds										
Restricted:										
Roads and Highways	\$ 1,587,383	\$ 1,897,557	\$ 2,247,273	\$ 2,396,775	\$ 2,537,124	\$ 2,546,580	\$ 2,426,599	\$ 1,851,271	\$ 1,689,791	\$ 1,468,145
Capital Outlay *	4,408,751	5,764,629	7,198,101	6,942,683	6,452,272	3,618,715	12,636,068	10,686,830	10,048,115	6,800,987
Debt service	322,229	331,165	351,997	351,727	328,012	274,795	225,510	(1,923)	-	-
Other	356,920	494,848	650,691	808,043	935,630	1,162,225	1,388,547	1,810,903	1,010,866	779,272
Committed for:										
Arts	39,326	21,911	43,441	59,532	68,848	104,162	118,316	142,277	115,108	73,804
Capital Outlay *	-	-	-	-	-	-	-	-	-	4,394,902
Assigned for:										
Other	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 6,714,609	\$ 8,510,110	\$ 10,491,503	\$ 10,558,760	\$ 10,321,886	\$ 7,706,477	\$ 16,795,040	\$ 14,489,358	\$ 12,863,880	\$ 13,517,110

Note: The City began to report fund balance classification per GASB Statement 54 in fiscal year 2011. Balances previously reported as reserved are reported as restricted and balances previously reported as unreserved are reported as unassigned, restricted, committed or assigned as applicable.

* Both restricted and committed fund balances for capital outlay are reported as restricted previous to 2011.

CITY OF SEDONA, ARIZONA

Financial Trends

Changes in Fund Balance of Governmental Funds

L Last Ten Fiscal Years (Unaudited)

(modified accrual basis of accounting)

	Fiscal Year									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues										
Taxes	\$ 6,546,144	\$ 6,753,610	\$ 7,240,894	\$ 7,312,515	\$ 9,186,755	\$ 9,321,955	\$ 9,542,649	\$ 9,328,388	\$ 8,142,198	\$ 8,538,593
Intergovernmental	4,816,666	4,506,257	5,630,606	4,845,240	5,549,374	5,115,368	5,302,778	5,463,364	6,127,774	4,473,983
Fines and forfeitures	155,966	169,143	190,270	168,953	216,431	324,562	368,785	268,848	269,104	200,129
Licenses and permits	256,225	234,908	233,951	230,797	186,037	192,882	164,807	212,366	207,092	179,555
Charges for services	189,300	144,997	161,231	546,461	144,563	153,751	154,194	161,103	184,458	98,339
Rents and royalties	-	-	-	178,646	58,222	47,796	2,077	3,362	3,698	-
Contributions and donations	-	-	-	17,569	170	5,000	1,424	1,114	1,990	6,452
Impact fees	-	-	-	416,376	292,668	276,348	364,474	302,216	278,352	154,162
Special assessments	251,908	271,817	279,565	252,155	221,518	197,125	203,172	163,266	-	-
Investment earnings	385,899	(267,334)	149,620	442,627	877,907	1,037,999	1,021,475	735,012	533,139	221,786
Other	952,967	501,968	638,928	64,271	199,436	45,244	133,662	235,581	506,745	292,300
Total Revenues	\$ 13,555,075	\$ 12,315,366	\$ 14,525,065	\$ 14,475,610	\$ 16,933,081	\$ 16,718,030	\$ 17,259,497	\$ 16,874,620	\$ 16,254,550	\$ 14,165,299
Expenditures										
Current:										
General government	\$ 5,010,584	\$ 6,246,402	\$ 6,329,143	\$ 6,877,663	\$ 7,977,384	\$ 8,292,797	\$ 8,643,505	\$ 8,908,985	\$ 6,993,621	\$ 5,021,720
Public safety	1,661,975	2,216,887	2,156,190	3,045,096	3,354,331	3,425,540	3,663,679	3,636,491	3,541,391	2,947,190
Highways and streets	1,209,486	1,859,282	2,499,340	3,153,340	3,977,627	5,783,445	2,915,421	5,588,218	4,300,673	2,031,023
Community services	671,143	699,563	730,158	640,865	646,384	807,619	970,037	1,169,314	843,316	1,654,380
Capital outlay	1,858,738	-	-	-	-	-	-	-	-	640,589
Principal	165,000	175,000	190,000	200,000	215,000	535,000	550,000	586,753	345,942	362,009
Interest and fiscal charges	94,433	82,610	72,119	60,907	49,161	209,044	262,216	689,685	570,707	562,465
Total expenditures	10,671,359	11,279,744	11,976,950	13,977,871	16,219,887	19,053,445	17,004,858	20,579,446	16,595,650	13,219,376
Revenues over (under) expenditures	2,883,716	1,035,622	2,548,115	497,739	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)	945,923
Other finance sources (Uses)										
Proceeds of refunding debt issuance	480,003	-	-	4,941,446	-	-	-	-	-	-
Proceeds of long-term debt issuance	-	-	-	-	-	-	8,810,604	114,032	-	-
Payment to refunded debt escrow agent	(459,216)	-	-	(5,281,171)	-	-	-	-	-	-
Transfers in	1,522,280	1,062,104	412,946	362,337	422,475	467,376	600,874	881,308	1,669,463	316,125
Transfers out	(1,522,280)	(1,062,104)	(412,946)	(232,337)	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)	(316,125)
Total other finance sources (uses)	20,787	-	-	(209,725)	-	-	8,943,917	593,888	404,856	-
Net change in fund balances	\$ 2,904,503	\$ 1,035,622	\$ 2,548,115	\$ 288,014	\$ 713,194	\$ (2,335,415)	\$ 9,198,556	\$ (3,110,938)	\$ 63,756	\$ 945,923
Debt service as a percentage of noncapital expenditures	3.03%	2.34%	2.24%	1.90%	1.66%	4.06%	5.02%	6.61%	5.85%	7.93%

CITY OF SEDONA, ARIZONA
Revenue Capacity
Principal Sales Tax Remitters
Current Year and Nine Years Ago

Tax Remitter	Fiscal Year 2011				Fiscal Year 2002		
	Tax Liability	Rank	Percentage of Total		Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 4,177,664	1	32.4%	Retail Trade	\$ 3,344,806	1	31.4%
Hotels & Other Lodging	3,207,107	2	24.9%	Hotels & Other Lodging	2,383,194	2	22.4%
Restaurants & Bars	1,771,269	3	13.7%	Construction	1,635,009	3	15.3%
Construction	1,196,484	4	9.3%	Restaurants & Bars	1,199,880	4	11.3%
Insurance & Real Estate	800,883	5	6.2%	Services	729,604	5	6.8%
Trans/Comm/Utilities	691,194	6	5.4%	Insurance & Real Estate	593,707	6	5.6%
Services	509,518	7	3.9%	Trans/Comm/Utilities	521,724	7	4.9%
Municipality & All Other	291,314	8	2.3%	Wholesale Trade	124,396	8	1.2%
Manufacturing	183,655	9	1.4%	Manufacturing	64,083	9	0.6%
Wholesale Trade	70,606	10	0.5%	Municipality & All Other	55,159	10	0.5%
	<u>\$ 12,899,694</u>		<u>100.0%</u>		<u>\$ 10,651,562</u>		<u>100.0%</u>

Source: Arizona Department of Revenue and Revenue Discovery Systems

Note 1: Due to a change in collection processes, the categories of tax remitters has been corrected.

Note 2: Due to confidentiality issues, the names of the ten largest revenue payers are not available. The categories presented are intended to provide alternative information regarding the sources of the cities privilege tax revenues.

CITY OF SEDONA, ARIZONA
Revenue Capacity
General Government Tax Revenues by Source
Last Ten Fiscal Years (Unaudited)
(modified accrual basis of accounting)

	<u>Sales Taxes</u>	<u>Occupancy Taxes</u>	<u>Special CFD Tax</u>	<u>Franchise Tax</u>	<u>Total</u>
2002	\$ 4,689,137	\$1,273,287	\$ 72,455	\$ 511,265	\$ 6,546,144
2003	4,854,115	1,249,052	128,527	521,916	6,753,610
2004	5,140,227	1,361,371	178,613	560,683	7,240,894
2005	5,120,992	1,437,338	189,610	564,575	7,312,515
2006	6,505,406	1,850,892	239,402	591,055	9,186,755
2007	6,729,836	1,703,147	248,220	640,752	9,321,955
2008	6,671,721	1,899,439	304,252	667,237	9,542,649
2009	6,380,487	1,717,057	569,667	661,177	9,328,388
2010	5,782,462	1,426,241	267,169	666,326	8,142,198
2011	6,171,723	1,472,193	163,434	699,088	8,506,438

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

CITY OF SEDONA, ARIZONA
Revenue Capacity
Sales Tax Collections by Category
Last Ten Fiscal Years (Unaudited)

Sales Category	Fiscal Year									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Mining	\$ -	\$ -	\$ 38	\$ 586	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125	\$ 62
Construction	1,816,845	1,936,993	1,540,425	1,783,265	2,089,324	2,179,423	2,196,607	2,358,558	1,809,571	1,196,484
Manufacturing	50,118	49,729	329,459	379,754	392,883	385,046	327,604	309,407	265,998	183,658
Transportation, Communication and Utilities	535,125	549,154	634,559	637,664	675,906	689,975	694,121	670,573	704,133	691,194
Wholesale trade	130,391	137,217	117,504	123,798	122,250	139,891	130,121	135,271	121,420	70,613
Retail trade	3,218,617	3,371,668	3,382,688	3,577,399	3,621,116	3,632,447	3,327,597	3,069,968	2,993,452	4,177,664
Restaurants and bars	1,206,365	1,384,725	1,452,812	1,625,205	1,644,280	1,812,673	1,795,497	1,757,018	1,639,413	1,771,269
Finance, Insurance and real estate	587,967	617,143	838,876	923,366	873,166	974,352	896,313	861,924	853,836	800,883
Accommodations	2,456,622	2,660,291	2,908,781	3,191,717	3,498,901	3,871,275	3,835,570	3,600,663	2,937,039	3,207,107
Services	692,469	746,237	651,305	687,305	403,291	423,789	397,286	321,006	349,848	509,518
Public administration	3,010	3,940	7,908	9,349	5,934	36,147	22,927	21,339	11,831	6,370
All other outlets	53,064	38,574	234,221	22,470	168,299	464,840	477,197	426,937	447,836	284,872
	<u>\$ 10,750,593</u>	<u>\$ 11,495,671</u>	<u>\$ 12,098,576</u>	<u>\$ 12,961,878</u>	<u>\$ 13,497,359</u>	<u>\$ 14,609,922</u>	<u>\$ 14,100,884</u>	<u>\$ 13,532,681</u>	<u>\$ 12,134,502</u>	<u>\$ 12,899,694</u>
Direct sales tax rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Source: Arizona Department of Revenue

Note: Fiscal Year 2011 amounts reflect receipts through June 2011

CITY OF SEDONA, ARIZONA
Revenue Capacity
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>
2002	3.00%	6.30%	6.40%	5.60%
2003	3.00%	6.30%	6.53%	5.60%
2004	3.00%	6.35%	6.53%	5.60%
2005	3.00%	6.35%	6.53%	5.60%
2006	3.00%	6.35%	6.53%	5.60%
2007	3.00%	6.35%	6.73%	5.60%
2008	3.00%	6.35%	6.73%	5.60%
2009	3.00%	6.35%	6.73%	5.60%
2010	3.00%	7.35%	7.73%	6.60%
2011	3.00%	7.35%	7.73%	6.60%

Source: Arizonal Department of Revenue

CITY OF SEDONA, ARIZONA
Debt Capacity
Ratios 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			
2002	\$ 475,150	\$ 4,905,000	\$ -	\$ 1,510,000	\$60,184,850	\$ 1,696,256	\$ -	\$68,771,256	20.93%	\$ 6,537
2003	316,767	4,745,000	-	1,335,000	58,788,233	1,453,934	-	66,638,934	19.34	6,228
2004	158,384	4,575,000	-	1,145,000	57,276,616	1,332,773	-	64,487,773	17.99	5,938
2005	4,460,000	-	-	945,000	56,670,000	1,211,612	-	63,286,612	16.94	5,753
2006	4,460,000	-	-	730,000	54,475,000	1,090,451	-	60,755,451	15.53	5,518
2007	4,155,000	-	-	500,000	52,380,000	969,290	-	58,004,290	14.83	5,210
2008	12,640,000	-	-	260,000	58,300,000	848,148	-	72,048,148	18.42	6,397
2009	12,320,000	-	107,279	-	55,110,000	726,967	-	68,264,246	17.78	5,969
2010	11,995,000	-	86,337	-	51,770,000	605,806	-	64,457,143	18.69	5,654
2011	11,655,000	-	64,328	-	48,275,000	-	-	59,994,328	18.85	5,981

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

CITY OF SEDONA, ARIZONA

Debt Capacity

Direct and Overlapping Governmental Activities Debt

(Unaudited)

Governmental Unit	Outstanding Debt (1)	Estimated Percentage Applicable (2)	Estimated Share of Overlapping Debt
State of Arizona	None	0.57%	None
Coconino County	None	7.49%	None
Yavapai County	None	7.45%	None
Coconino County C.C.D.	\$ 14,115,000	7.49%	\$ 1,057,214
Yavapai County C.C.D.	43,935,000	7.45%	3,273,158
Sedona-Oak Creek Unified S.D. No. 9	64,300,000	69.20%	44,495,600
Sedona Fire District	None	68.98%	None
City of Sedona	None	100.00%	None
Total direct and overlapping debt			\$ 48,825,972

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 through 2011-2012.

CITY OF SEDONA, ARIZONA
Debt Capacity
Pledged-Revenue Coverage
Last Ten Fiscal Years (Unaudited)

WIFA Loan							
Fiscal Year	Gross Revenues (1)	Less:		Net Available Revenue	Principal	Interest	Coverage
		Operating Expenses (2)					
2002	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
2003	4,116,940	1,021,517	3,095,423	121,161	67,328	16.42	
2004	4,384,465	1,186,629	3,197,836	121,161	64,482	17.23	
2005	3,832,386	1,243,578	2,588,808	121,161	61,522	14.17	
2006	7,401,141	3,229,366	4,171,775	121,161	58,443	23.23	
2007	5,592,098	2,003,340	3,588,758	121,161	55,240	20.34	
2008	5,119,570	2,423,382	2,696,188	121,161	51,910	15.58	
2009	4,524,196	2,874,549	1,649,647	121,161	48,448	9.73	
2010	4,745,289	2,357,123	2,388,166	121,161	44,846	14.39	
2011 (3)	-	-	-	-	-	N/A	

Special Assessment Bonds					
Fiscal Year	Special Assessment Collections	Principal	Interest	Total	Coverage
2002	\$ -	\$ -	\$ -	-	-
2003	271,817	175,000	81,794	\$ 256,794	1.06
2004	279,565	190,000	71,300	261,300	1.07
2005	252,155	200,000	60,907	260,907	0.97
2006	221,518	215,000	49,161	264,161	0.84
2007	197,125	230,000	35,363	265,363	0.74
2008	203,172	240,000	21,850	261,850	0.78
2009	163,266	260,000	7,475	267,475	0.61
2010	-	-	-	-	N/A
2011	-	-	-	-	N/A

Excise Tax Revenue Bonds					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2002	\$ -	\$ -	\$ -	\$ -	-
2003	14,709,139	330,000	1,854,471	2,184,471	6.73
2004	15,788,803	1,511,617	1,841,271	3,352,888	4.71
2005	16,354,103	1,240,000	2,040,386	3,280,386	4.99
2006	19,258,257	2,095,000	2,596,486	4,691,486	4.10
2007	18,650,420	2,500,000	2,494,986	4,994,986	3.73
2008	18,369,596	3,510,000	2,849,386	6,359,386	2.89
2009	17,970,410	3,510,000	3,016,669	6,526,669	2.75
2010	15,958,669	3,665,000	2,861,257	6,526,257	2.45
2011	12,900,651	3,835,000	2,696,830	6,531,830	1.98

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

Note: Information prior to 2003 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) WIFA Loan closed as of 2010.

CITY OF SEDONA, ARIZONA

Debt Capacity

Debt Limitations and Computation of Legal Debt Margin

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 289,661,444	\$ 289,661,444
Total assessed value	<u>\$ 289,661,444</u>	<u>\$ 289,661,444</u>
Legal debt margin:		
Debt limitation	\$ 57,932,289	\$ 17,379,687
Debt applicable to limitation:		
General Obligation Bonds	<u>-</u>	<u>-</u>
Total debt applicable to limitation	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 57,932,289</u>	<u>\$ 17,379,687</u>
Total debt applicable to the limit as a percentage of the limit	0%	0%

Arizona's Constitution states that a municipality cannot issue general obligation bonds in excess of 6% of the assessed valuation for general municipal purposes.

Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purposes such as supplying water and sewer services and recreational and playground facilities.

CITY OF SEDONA, ARIZONA
Demographic and Economic Information
Demographic Statistics - Population Statistics, Unemployment Averages
Last Ten Fiscal Years (Unaudited)

Calendar Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	City of Sedona Unemployment Rate
2002	10,520	\$ 344,500,000	\$ 32,747	-	1,497	4.30%
2003	10,700	358,400,000	33,495	-	1,408	4.20
2004	10,861	373,500,000	34,389	-	1,447	3.80
2005	11,000	391,100,000	35,555	-	1,525	3.60
2006	11,010	396,360,000	36,000	-	1,435	3.20
2007	11,134	391,100,000	35,127	-	1,404	2.90
2008	11,263	391,100,000	34,724	-	1,474	3.60
2009	11,436	384,000,000	33,578	50.5	1,509	8.70
2010	11,400	344,850,000	30,250	50.5	1,288	9.27
2011	10,031	319,206,482	31,822	50.5	1,209	9.40

Sources: 2010 Census, EEC, DES, Sedona/Oak Creek School District.

Note: Median age was not available for years 2002 through 2008

CITY OF SEDONA, ARIZONA
Demographic and Economic Information
Principal Employers
Current Fiscal Year and Nine Years Ago (Unaudited)

Employer	2010 (2)			2002		
	Employees (1)	Rank	Percentage of Total City Employment	Employees (1)	Rank	Percentage of Total City Employment
Sunterra Resorts	400	1	6.31%	425	2	6.68%
Enchantment Resorts	383	2	6.04	384	3	6.04
Los Abrigados	275	3	4.34	500	1	7.86
Hilton Resort & Spa	193	4	3.05	200	4	3.14
L'Auberge de Sedona Resort	180	5	2.84	180	5	2.83
Sedona/Oak Creek School District	180	6	2.84	140	6	2.20
Pink Jeep Tours	125	7	1.97	-	9	-
City of Sedona	100	8	1.89	96	8	1.51
Radisson Resort	99	9	1.56	125	7	1.96
Sedona Rouge	98	10	1.55	-	10	-
	<u>2,033</u>		32.39%	<u>2,050</u>		32.22%

Source: The Arizona Department of Commerce.

(1) Principal employees include the City of Sedona and surrounding region.

(2) 2010 information presented as 2011 information was not available

CITY OF SEDONA, ARIZONA
Demographic and Economic Information
Full Time Equivalent Employees by Function
Last Ten Fiscal Years (Unaudited)

Function	Full-time Equivalent Employees									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Management Services	23	23	20	24	23	25	25	25	18	17
Finance	4	4	4	5	5	5	5	5	5	6
Planning	3	3	2	4	4	5	5	5	6	6
Building	3	3	2	3	3	3	3	3	2	2
Other	1	1	1	1	1	1	1	1	1	1
Public Safety										
Officers	26	25	24	25	29	31	31	30	24	24
Civilians	10	8	8	9	9	8	8	10	8	10
Other Public Works										
Engineering	2	2	2	4	5	5	5	5	4	4
Other	10	11	10	9	11	11	11	11	14	14
Redevelopment	6	7	7	8	7	7	7	7	4	4
Parks and Recreation	5	6	5	6	6	6	6	7	3	2
Wastewater	7	7	7	7	8	11	11	11	11	11
Total	100	100	92	105	111	118	118	120	100	101

Source: City of Sedona, Arizona

CITY OF SEDONA, ARIZONA
Operating Information
Operating Indicators by Function
Last Ten Fiscal Years (Unaudited)

Function	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government										
Building Permits Issued	663	660	627	607	507	573	553	537	593	463
Building Inspections Conducted	3,020	2,950	3,033	3,431	2,303	3,168	2,737	2,180	2,086	1,277
Police										
Physical Arrests	N/A	N/A	643	594	439	662	542	652	544	537
Parking Violations	N/A	10	60	65	80	87	86	40	195	149
Traffic Violations	N/A	815	2,266	2,750	2,475	2,296	4,589	3,772	3,310	2,617
Other Public Works										
Street Resurfacing (Miles)	3.9	2.8	0.7	1.2	1.1	2.0	4.3	3.5	-	2.4
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	0.9	1.1	1.1	1.1	1.1	1.3	1.2	1.1	1.1	1.2

Source: City of Sedona, Arizona

CITY OF SEDONA, ARIZONA
Operating Information
Capital Asset Statistics by Function
Last Ten Fiscal Years (Unaudited)

Function	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Zone Offices	1	1	1	1	1	1	1	1	1	1
Patrol Units	5	6	7	8	9	11	11	12	16	13
Other Public Works										
Streets (Miles)	N/A	N/A	N/A	N/A	154.5	154.5	154.5	154.5	154.4	154.4
Highways (Miles)	N/A	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Streetlights	N/A	2	2	2	2	2	2	8	8	8
Parks and Recreation										
Acreage	100.3	100.3	100.3	100.3	100.3	100.3	100.3	91.8 **	93.0	93
Playgrounds	1	3	3	3	3	3	3	3	3	3
Baseball and Softball Diamonds	2	2	2	2	2	2	2	2	2	2
Football and Soccer Fields	1	1	1	1	1	1	1	1	1	1
Water										
Fire Hydrants	-	558	579	615	619	650	651	651	659	659
Wastewater										
Sanitary Sewers (Miles)	-	-	-	-	156.4	159.3	75.0	75.0	75.0	75
Treatment Capacity (Millions of Gallons)	2.0	2.0	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2

Source: City of Sedona, Arizona

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