



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
JUNE 30, 2012**

**City of Sedona
Arizona**

CITY OF SEDONA, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

Prepared by:
Financial Services Department

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CITY OF SEDONA, ARIZONA

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December 11, 2012

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

We are pleased to submit to you the 2012 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, HintonBurdick, 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, 2012, 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, 2012, 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 may also meet periodically with the independent auditors, who have free access to both the liaison and the City Council, to discuss internal accounting controls as well as auditing and financial reporting matters.

The City encompasses approximately 19 square miles and is located in both Yavapai and Coconino Counties. Between 1988, when the City was incorporated, and today, the City's population has increased approximately 56%. The estimated current population is approximately 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 2012.

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 2012 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 50% of the General Fund revenues. The City's sales tax rate is currently at 3%. In order to address the economic downturn, the fund split was adjusted to provide 1.62% to the General Fund and 1.38% to the Wastewater Enterprise Fund, with general capital projects being funded from an annually adjusted transfer at levels necessary to support needed projects and allowing for allocation of funds to the most fundamental areas of service. The City also has a 3% Bed tax (occupancy) which is allocated to the General Fund.

State Shared Revenues: The City of Sedona 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 20.76% of the City's total general fund revenue. 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 is evident that the City will 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. The City will continue the capital budget process that was implemented in the prior 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 reviews of staffing for all vacant positions unless required to fulfill a Council goal
- Salaries have been frozen at FY 08/09 levels
- Continue to review reorganizations to enhance efficiency
- Continue consolidated Travel and Training program
- Consideration of contracted versus internal provision of services

Changes to Operating Policies and Costs

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

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. The City has started this reallocation and the study will be reviewed in the upcoming year to evaluate not only the fees, but the sales tax subsidy allocation
- 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 to 100%.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

During fiscal year 2012, 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 2012:

Police

- The department's Bicycle Patrol Program was formalized and has officers that are trained and certified in police bicycle patrol operations.

- The Arizona Governor's Office of Highway Safety awarded a \$29,500 grant to the department for the purchase of a speed/variable message board trailer and funding for DUI enforcement.
- New overtime tracking and monitoring processes were developed with the Finance Department to enhance the management of overtime expenditures.
- The department implemented technology improvements for patrol scheduling and the property/evidence room.
- Traffic collision investigation services have been enhanced through the training of an officer in Traffic Collision Reconstruction and Pedestrian/Bicycle Collision Investigation.

Public Works

- Repaved approximately 3 miles of roadway.
- Installed a major storm drainage line across SR 89A.
- Began pre-monsoon storm drainage maintenance program.
- Completed marking of a bike way in West Sedona along Thunder Mountain/Sanborn and adjacent roadways.
- Installed a Transit Shelter along SR 179.

Management Services

- Refinanced a portion of the City's outstanding Excise Tax Obligations, that resulted in savings well in excess of the minimum savings level approved by City Council due to very favorable conditions in the bond market and strong demand for the City's debt obligations.
- Approved Solar Service Agreement with SunEdison for construction and maintenance of Solar at the Wastewater Treatment Plant. This agreement will save the taxpayers on energy costs to operate the Plant.
- Approved Intergovernmental Agreement with City of Cottonwood for operation and management of the Verde Lynx Transit System.
- Launched the live broadcasting and streaming of City Council meetings on the City's cable channel and website.
- Implemented Facebook and approved Social Media policy.
- Provided extensive public outreach and education on Home Rule ballot issue.
- Successfully coordinated with reputable audit firm to complete approximately 20 sales tax audits.
- Created a *Popular Annual Financial Report (PAFR)* for the FY 2010/2011 audit in December 2011. The PAFR is an easily understandable financial report produced for the general public.
- Implemented Wastewater service application in February 2012.
- Successfully completed FY 2010-2011 financial audit with new auditing firm, Hinton Burdick PLLC.
- Evaluated and expanded the City's *Wastewater Subsidy Program* to assist low income sewer customers.
- Partial implementation and training for an ERP system/software.

- Installation of The Storyteller's Cowboy statue at Jordan Park.
- Installation of the Centennial Above and Beyond roundabout art sculptures.

Community Development

- Adoption of new Political Sign Code requirements.
- Completed city-wide enforcement action regarding outside display and signage issues.
- Coordinated the annual Water Wise event for fourth grade students.
- Sustainability Commission and staff worked on proposed trail system in the Soldier Wash area and also on a designated bike route north of SR 89A.
- Moved forward the City's \$300,000 Community Development Block Grant Program with funding for the Sedona Community Center and housing rehabilitation program. This project will carry over into FY 2012-13.
- Received National Historic Landmark status for the Chapel of the Holy Cross.

Parks & Recreation

- Hosted 2 *new* successful events, the Red Mud Run and A Dog's Day Out in the Park.
- Provided a 4th of July Laser show to an audience of 3,000 through a successful partnership with Diamond Resorts.
- Received a \$35,000 grant from Yavapai County to be used on the recreation components of the new Sedona Wetlands Preserve.
- Worked in conjunction with city staff and Olssen Associates to complete the City's first Parks and Recreation Master Plan.
- Completed retrofit to Jack Malmgren Skate Park to allow for BMX bikes and skateboards.
- Recognized by Arizona Parks and Recreation Association for Volunteer of the Year and Best Aquatic Event of the Year for Pumpkin Splash.

Wastewater

- Upgraded the wastewater treatment so that it produces A+ water
- Completion of the construction of pilot wetlands
- Constructed new air drying beds 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 two-year set of priorities as listed 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

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, 2012 of \$55 million.

<u>Purpose of Debt</u>	<u>Outstanding Balance</u>	<u>Annual Debt Service</u>
Wastewater	\$ 43,780,000	\$ 6,080,226
Infrastructure Projects <i>Debt service begins 7/1/2018</i>	8,795,000	404,856
City Hall Purchase	<u>2,505,000</u>	<u>442,911</u>
Total Long-Term Debt	<u>\$ 55,080,000</u>	<u>\$ 6,927,993</u> P&I

Cash Management

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

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

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

Risk Management

The City is exposed to various risks of loss related to public and property liability and worker's compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City participates in the Arizona Municipal Risk Retention Pool. The policy insures up to \$2,000,000 per incident plus excess liability of up to \$10,000,000. Coverage is provided on a claim made basis with a \$50,000 deductible. The City is looking to increase its claim deductible to capitalize on its very positive risk history by minimizing the annual policy costs to the City while still maintaining a low deductible. Auto is on an occurrence basis with a \$5,000 deductible on liability.

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

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

OTHER INFORMATION

Award

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Sedona, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2011. This was the 13th 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.

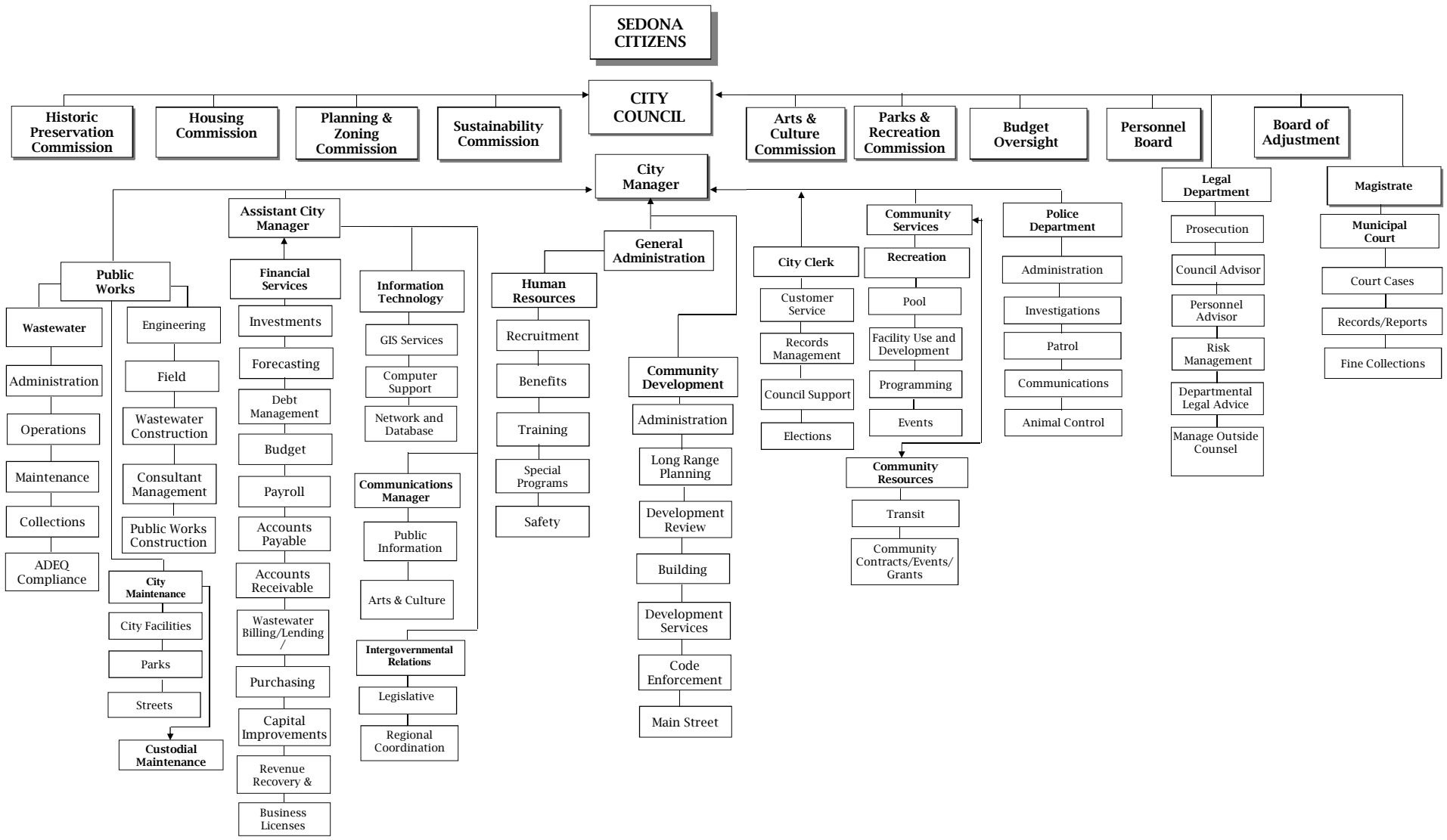
Sincerely,



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, 2011

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. Emer

Executive Director

CITY OF SEDONA, ARIZONA

List of Elected and Appointed Officials

June 30, 2012

Rob Adams
Mayor

Mark DiNunzio
Vice Mayor

Councilmembers

Barbara Litrell

Dan McIlroy

John Martinez

Jessica Williamson

Mike Ward

Tim Ernster
City Manager

Karen Daines
Assistant City Manager

Barbara Ashley
Director of Financial Services

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, 2012, 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 opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Sedona as of June 30, 2012, 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 October 18, 2012, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the Public Safety Retirement System information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States

of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sedona, Arizona's financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



HintonBurdick, PLLC
October 18, 2012

CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2012

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, 2012. 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 position at the close of the fiscal year was \$109,028,164. This amount is comprised of \$70,990,461 in net investment in capital assets, \$9,015,587 of restricted net position and \$29,022,116 in unrestricted net position.
- Governmental net position increased by \$366,880 and Business-Type net position increased by \$2,751,414.
- Total City Sales tax revenue slightly increased over last year by less than 1% and still is the single largest revenue in the budget.
- Improvements totaling \$3.1 million were added to the City's wastewater system in the current fiscal year and approximately \$600 thousand in various park improvements, infrastructure and other capital asset purchases for the City's governmental activities.
- Final payments were made during the current fiscal year for the City's wastewater debt service Series 2002 and Series 2004. Total debt service payments were approximately \$6.4 million leaving \$55 million in total outstanding debt at the close of the year.
- The General Fund's unassigned fund balance increased by \$380,500 to \$12,783,938. The unassigned fund balance represents 119% of total General Fund expenditures for the fiscal year.
- The Capital Improvement fund balance decreased by \$154,364 to a total fund balance of \$7,943,949 which consists of \$3,500,805 in restricted fund balance and \$4,443,144 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 Position 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 Position 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 Position 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 position and changes in them. Net position, 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 position 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 Position 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 Position and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements on pages 15 and 17.
- 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 Position and the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$109 million as of June 30, 2012 as shown in the following condensed statement of net position. 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 Position

	Governmental Activities		Business-type Activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 28,278,997	\$ 28,309,629	\$ 18,119,964	\$ 19,379,230	\$ 46,398,961	\$ 47,688,859
Capital assets	28,492,534	28,968,866	98,763,364	98,079,498	127,255,898	127,048,364
Total assets	<u>56,771,531</u>	<u>57,278,495</u>	<u>116,883,328</u>	<u>117,458,728</u>	<u>173,654,859</u>	<u>174,737,223</u>
Long-term liabilities outstanding	11,554,915	11,912,337	45,060,343	48,430,296	56,615,258	60,342,633
Other liabilities	945,487	1,461,909	7,065,950	7,022,812	8,011,437	8,484,721
Total liabilities	<u>12,500,402</u>	<u>13,374,246</u>	<u>52,126,293</u>	<u>55,453,108</u>	<u>64,626,695</u>	<u>68,827,354</u>
Net position:						
Net investment in capital assets	17,287,440	17,056,529	53,703,021	49,649,202	70,990,461	66,705,731
Restricted	9,015,587	9,048,404	-	-	9,015,587	9,048,404
Unrestricted	<u>17,968,102</u>	<u>17,799,316</u>	<u>11,054,014</u>	<u>12,356,418</u>	<u>29,022,116</u>	<u>30,155,734</u>
Total net position	<u>\$ 44,271,129</u>	<u>\$ 43,904,249</u>	<u>\$ 64,757,035</u>	<u>\$ 62,005,620</u>	<u>\$ 109,028,164</u>	<u>\$ 105,909,869</u>

The City has \$173,654,859 in total assets, with \$127,255,898 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.

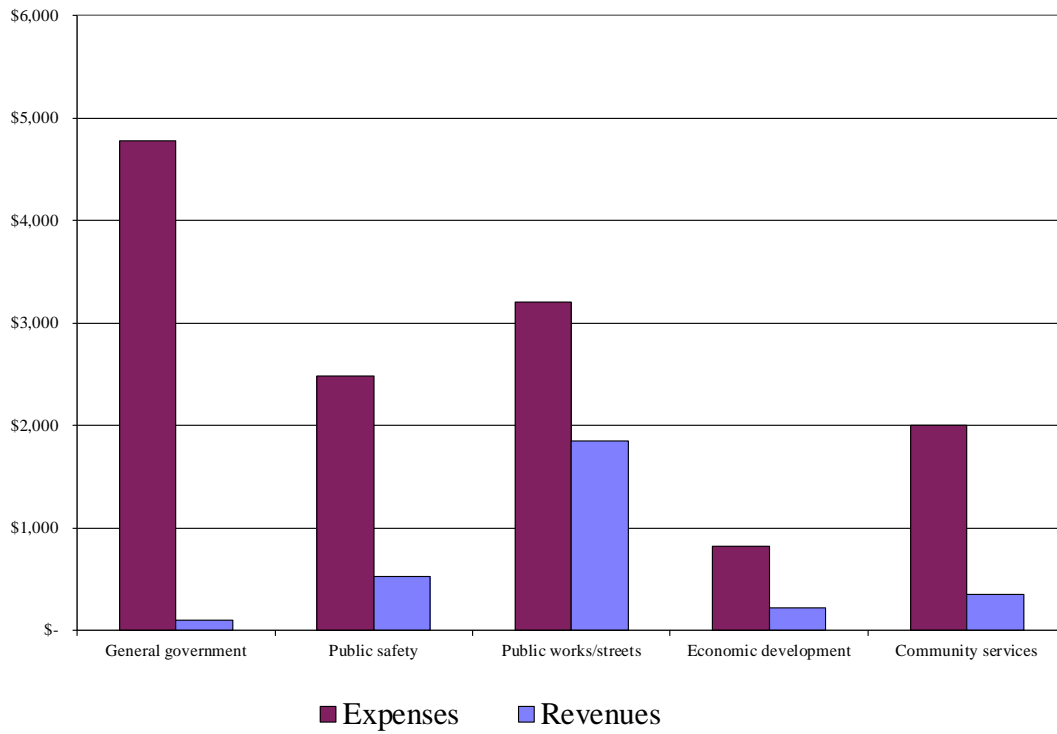
City of Sedona
Changes in Net Position

	Activities		Activities		Total	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 584,272	\$ 586,877	\$ 5,159,442	\$ 4,393,291	\$ 5,743,714	\$ 4,980,168
Operating grants and contributions	1,776,788	1,732,206	-	-	1,776,788	1,732,206
Capital grants and contributions	688,239	918,037	-	-	688,239	918,037
General revenues:						
Taxes	10,083,593	9,872,516	5,002,648	5,413,073	15,086,241	15,285,589
State revenue sharing	846,624	1,064,334	-	-	846,624	1,064,334
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Investment earnings	215,593	166,085	208,284	134,460	423,877	300,545
Other revenue/(expense)	37,116	88,974	-	-	37,116	88,974
Total revenues	<u>14,232,225</u>	<u>14,429,029</u>	<u>10,370,374</u>	<u>9,940,824</u>	<u>24,602,599</u>	<u>24,369,853</u>
Expenses:						
General government	4,777,974	4,893,853	-	-	4,777,974	4,893,853
Public safety	2,486,555	3,009,197	-	-	2,486,555	3,009,197
Public works/Streets	3,204,078	2,531,632	-	-	3,204,078	2,531,632
Economic development	2,004,255	1,357,077	-	-	2,004,255	1,357,077
Community services	824,582	795,005	-	-	824,582	795,005
Interest on long-term debt	567,901	583,175	-	-	567,901	583,175
Wastewater	-	-	7,618,960	7,618,142	7,618,960	7,618,142
Total expenses	<u>13,865,345</u>	<u>13,169,939</u>	<u>7,618,960</u>	<u>7,618,142</u>	<u>21,484,305</u>	<u>20,788,081</u>
Increase (Decrease) in net position before transfers	366,880	1,259,090	2,751,414	2,322,682	3,118,294	3,581,772
Transfers	-	-	-	-	-	-
Increase (Decrease) in net position	366,880	1,259,090	2,751,414	2,322,682	3,118,294	3,581,772
Net position, beginning	43,904,249	43,035,371	62,005,621	60,146,431	105,909,870	103,181,802
Prior period adjustment	-	(390,212)	-	(463,493)	-	(853,705)
Net position, ending	<u>\$ 44,271,129</u>	<u>\$ 43,904,249</u>	<u>\$ 64,757,035</u>	<u>\$ 62,005,620</u>	<u>\$ 109,028,164</u>	<u>\$ 105,909,869</u>

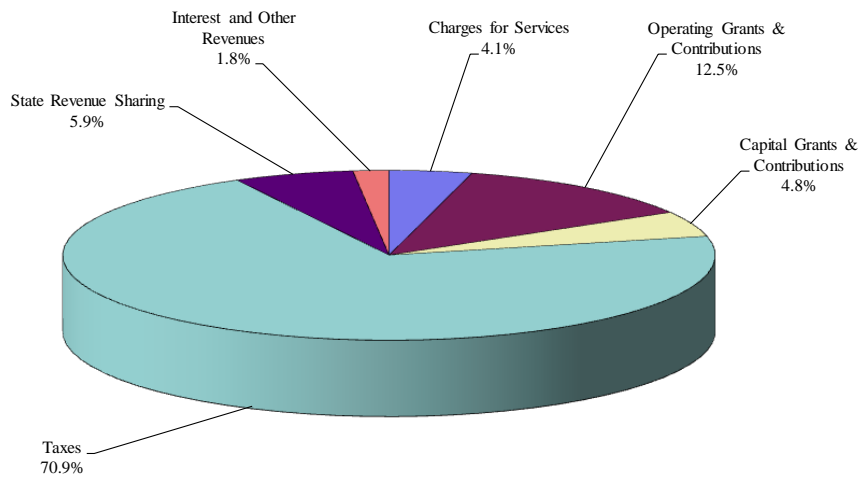
Total resources available during the year to finance governmental operations were \$56.8 million consisting of Net position at July 1, 2012 of \$44.3 million, program revenues of \$3 million and General Revenues of \$11.2 million. Total Governmental Activities during the year were \$13.8 million; thus Governmental Net Position was increased by \$366,880 to \$44.3 million.

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)**

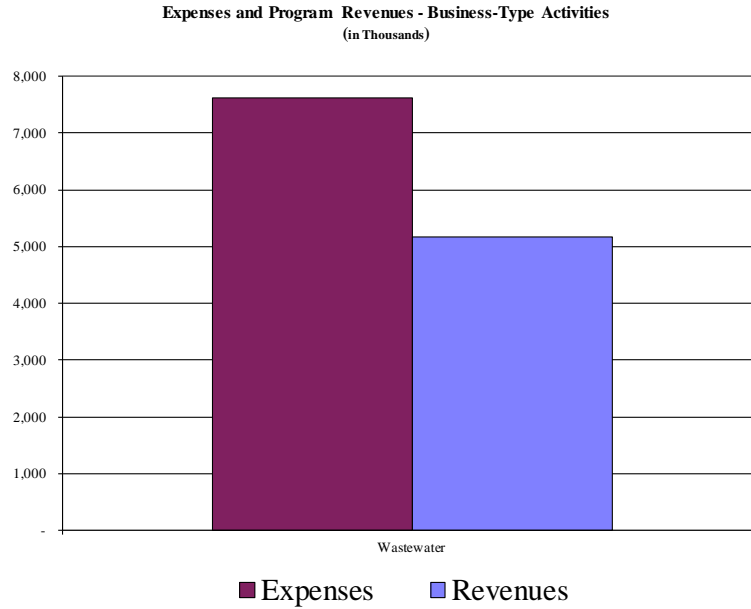


Revenue By Source - Governmental Activities

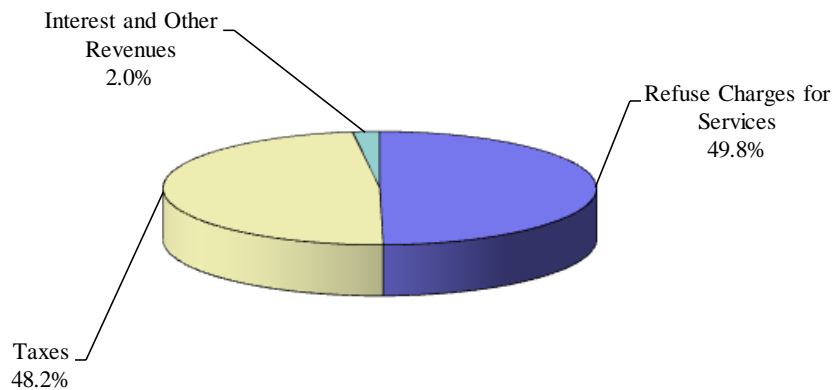


Business Type Activities

Net position of the Business Type activities at June 30, 2012, as reflected in the Statement of Net Position were \$64.7 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 Position, the amounts paid by users of the system were \$5.2 million and there was \$5 million subsidized by sales tax revenues. Interest earnings and other revenues were \$208,284. The Net Position increased by \$2,751,414.



Revenue By Source - Business-type Activities



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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Sedona's governmental funds reported combined ending fund balances of \$26.2 million, an increase of \$343 thousand in comparison with the prior year. Approximately, 49% of this total amount or \$12.8 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 \$12,783,938 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 119% of total general fund expenditures.

During the year, the City of Sedona's general fund balance increased by \$380,500 primarily due to various costs savings throughout all line-items of the operating budget expenditures.

The Highway User Revenue Fund has a total fund balance of \$1,213,017, all of which is restricted for road and street construction and improvements. The net decrease in the fund balance during the current year was \$255,128 due to planned appropriations of fund balance for road work.

The Capital Improvement fund balance decreased by \$154,364 primarily due to various capital expenditures related to Information Technology budget expenditures.

The Wastewater fund experienced a \$2,751,414 increase in net position for 2012 primarily due to increased monthly service fees, planned allocation of sales tax receipts and reduction of interest on long-term debt.

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 \$11,631,832, on a budgetary basis, were less than the budget of \$11,903,740 by \$271,908. The variance in budget to actual numbers related to revenues were the result of less than anticipated sales tax audit assessments. Budgetary expenditures of \$10,733,313 were 89% of budgeted expenditures of \$12,007,741, a savings of \$1,274,428. The variance in budget to actual numbers related to expenditures were the result of staff changes which resulted in greater savings than anticipated and various costs savings 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 2012, net capital assets of the government activities totaled \$28.49 million and the net capital assets of the business-type activities totaled \$98.7 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 \$11.3 million in governmental type debt, and \$43.7 million in business-type debt. The debt is a liability of the government and amounts to \$5,491 per capita. During the current fiscal year the City issued Excise Tax Revenue Refunding Obligations, Series 2012 for \$8,395,000 to refinance a portion of the Series 1998 Excise Tax Revenue Obligations. The City's total debt decreased by \$3.7 million as a result of regularly scheduled debt service payments and the net activity of the refunding obligation. (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 2012-13 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue at \$12,383,810 (including capital fund expense transfers). This means that the general fund reserves are at approximately 100%. The adopted fiscal year 2012-13 budget is \$36,469,809, which includes capital projects of \$8.1 million. The budget for fiscal year 2012-13 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.
- Continued participation in Destination Marketing 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.
- Implementation of transit system with the City of Cottonwood.
- Continuing the rehabilitation to Jordan Historical Park and Museum.
- Continue the 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) 204-7205. Or visit our website at: www.SedonaAZ.gov/finance.

BASIC FINANCIAL STATEMENTS

CITY OF SEDONA, ARIZONA
Statement of Net Position
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 16,362,088	\$ 16,473,864	\$ 32,835,952
Receivables (net of allowance)	2,230,534	805,719	3,036,253
Deferred charges	219,848	840,381	1,060,229
Temporarily restricted assets:			
Cash and cash equivalents	9,466,527	-	9,466,527
Capital assets (net of accumulated depreciation):			
Land	6,960,501	11,159,413	18,119,914
Construction in progress	622,794	11,174	633,968
Buildings	4,218,750	-	4,218,750
Improvements	3,485,792	-	3,485,792
System improvements	-	87,350,015	87,350,015
Machinery, equipment and vehicles	759,627	242,762	1,002,389
Infrastructure/Roads	12,445,070	-	12,445,070
Total assets	<u>56,771,531</u>	<u>116,883,328</u>	<u>173,654,859</u>
Liabilities			
Accounts payable and other current liabilities	867,176	270,704	1,137,880
Interest payable	-	5,934,491	5,934,491
Customer deposits	-	6,750	6,750
Unearned revenue	78,311	854,005	932,316
Noncurrent liabilities:			
Due within one year	670,896	3,880,000	4,550,896
Due in more than one year	10,884,019	41,180,343	52,064,362
Total liabilities	<u>12,500,402</u>	<u>52,126,293</u>	<u>64,626,695</u>
Net Position			
Net investment in capital assets	17,287,440	53,703,021	70,990,461
Restricted for:			
Highways and streets	1,213,017	-	1,213,017
Capital outlay	6,835,250	-	6,835,250
Other	967,320	-	967,320
Unrestricted	17,968,102	11,054,014	29,022,116
Total net position	<u>\$ 44,271,129</u>	<u>\$ 64,757,035</u>	<u>\$ 109,028,164</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 4,777,974	\$ 96,667	\$ 4,305	\$ -	\$ (4,677,002)	\$ -	\$ (4,677,002)
Public safety	2,486,555	202,465	291,782	30,715	(1,961,593)	-	(1,961,593)
Public works/streets	3,204,078	27,583	1,472,351	352,657	(1,351,487)	-	(1,351,487)
Economic development	824,582	192,843	-	22,392	(609,347)	-	(609,347)
Community services	2,004,255	64,714	8,350	282,475	(1,648,716)	-	(1,648,716)
Interest on long-term debt	567,901	-	-	-	(567,901)	-	(567,901)
Total governmental activities	<u>13,865,345</u>	<u>584,272</u>	<u>1,776,788</u>	<u>688,239</u>	<u>(10,816,046)</u>	<u>-</u>	<u>(10,816,046)</u>
Business-type activities:							
Wastewater	7,618,960	5,159,442	-	-	-	(2,459,518)	(2,459,518)
Total business-type activities	<u>7,618,960</u>	<u>5,159,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,459,518)</u>	<u>(2,459,518)</u>
Total primary government	<u>\$ 21,484,305</u>	<u>\$ 5,743,714</u>	<u>\$ 1,776,788</u>	<u>\$ 688,239</u>			
General Revenues:							
Taxes:							
Sales tax					7,729,483	5,002,648	12,732,131
Franchise tax					713,577	-	713,577
Auto fee in lieu tax (unrestricted)					476,438	-	476,438
Bed tax fee in lieu (unrestricted)					380,270	-	380,270
State sales tax (unrestricted)					783,825	-	783,825
State sales taxes - revenue sharing (unrestricted)					846,624	-	846,624
Unrestricted investment earnings					215,593	208,284	423,877
Gain on sale of capital assets					22,309	-	22,309
Other					14,807	-	14,807
Transfers					-	-	-
Total general revenues & transfers					<u>11,182,926</u>	<u>5,210,932</u>	<u>16,393,858</u>
Change in net position					366,880	2,751,414	3,118,294
Net position - beginning					43,904,249	62,005,621	105,909,870
Net position - ending					<u>\$ 44,271,129</u>	<u>\$ 64,757,035</u>	<u>\$ 109,028,164</u>

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

CITY OF SEDONA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2012

Assets	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Total Governmental Funds
Cash and cash equivalents	\$ 11,814,781	\$ -	\$ 4,443,144	\$ 104,163	\$ 16,362,088
Receivables:					
Taxes	-	-	-	45,577	45,577
Other	544,668	873	-	-	545,541
Intergovernmental	1,361,620	71,891	104,363	101,542	1,639,416
Restricted cash and investments	-	1,246,964	3,984,460	4,235,103	9,466,527
Total assets	\$ 13,721,069	\$ 1,319,728	\$ 8,531,967	\$ 4,486,385	\$ 28,059,149
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 347,792	\$ 106,711	\$ 40,696	\$ 151,387	\$ 646,586
Accrued wages and benefits	220,590	-	-	-	220,590
Deferred revenue	290,438	-	547,322	11,875	849,635
Unearned revenue	78,311	-	-	-	78,311
Total liabilities	937,131	106,711	588,018	163,262	1,795,122
Fund Balances:					
Restricted for:					
Public safety	-	-	-	242,519	242,519
Public works/streets	-	1,213,017	-	-	1,213,017
Community services	-	-	-	724,801	724,801
Capital outlay	-	-	3,500,805	3,334,445	6,835,250
Committed to:					
Community services	-	-	-	21,358	21,358
Capital outlay	-	-	4,443,144	-	4,443,144
Unassigned	12,783,938	-	-	-	12,783,938
Total fund balances	12,783,938	1,213,017	7,943,949	4,323,123	26,264,027
Total Liabilities and fund balances	\$ 13,721,069	\$ 1,319,728	\$ 8,531,967	\$ 4,486,385	\$ 28,059,149

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

CITY OF SEDONA, ARIZONA
Reconciliation of Total Governmental Fund Balance
To Net Position of Governmental Activities
June 30, 2012

Total governmental fund balances	\$	26,264,027
<p>Amounts reported for governmental activities in the statement of net position 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	\$	44,140,125
Less accumulated depreciation		<u>(15,647,591)</u>
		28,492,534
<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	\$	(11,300,000)
Deferred amount on refunding		328,148
Deferred amount of premium		(192,044)
Capital leases		(41,198)
Compensated absences		(349,821)
Deferred charges for bond issue costs		<u>219,848</u>
		(11,335,067)
<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>849,635</u>
Total net position of governmental activities	\$	<u><u>44,271,129</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, 2012

REVENUES	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 8,422,556	\$ -	\$ -	\$ 171,575	\$ 8,594,131
Licenses, permits and fees	276,000	-	-	-	276,000
Intergovernmental revenue	2,383,362	696,388	766,054	286,111	4,131,915
Contributions/donations	4,305	-	-	35,037	39,342
Charges for services	125,142	-	-	-	125,142
Fines and forfeitures	202,465	-	-	-	202,465
Impact fees	-	-	-	297,107	297,107
Interest	143,142	21,953	52,891	66,744	284,730
Other revenues	74,860	3,349	42,642	-	120,851
Total revenues	<u>11,631,832</u>	<u>721,690</u>	<u>861,587</u>	<u>856,574</u>	<u>14,071,683</u>
EXPENDITURES					
Current:					
General government	3,974,070	-	-	333,665	4,307,735
Public safety	2,360,913	-	-	189,790	2,550,703
Public works/Streets	890,587	1,368,852	-	6,133	2,265,572
Economic development	776,251	-	-	48,331	824,582
Community services	1,806,169	-	-	108,401	1,914,570
Capital outlay	-	-	818,331	121,388	939,719
Debt service:					
Principal	378,130	-	-	-	378,130
Interest and fiscal charges	547,193	-	-	-	547,193
Total expenditures	<u>10,733,313</u>	<u>1,368,852</u>	<u>818,331</u>	<u>807,708</u>	<u>13,728,204</u>
Excess of revenues					
Over (Under) Expenditures	<u>898,519</u>	<u>(647,162)</u>	<u>43,256</u>	<u>48,866</u>	<u>343,479</u>
Other Financing Sources (Uses):					
Transfers out	(518,019)	-	(320,354)	-	(838,373)
Transfers in	-	392,034	122,734	323,605	838,373
Total other financing Sources (Uses)	<u>(518,019)</u>	<u>392,034</u>	<u>(197,620)</u>	<u>323,605</u>	<u>-</u>
Net change in fund balances	380,500	(255,128)	(154,364)	372,471	343,479
Fund balances, beginning 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>
Fund balances, end of year	<u>\$ 12,783,938</u>	<u>\$ 1,213,017</u>	<u>\$ 7,943,949</u>	<u>\$ 4,323,123</u>	<u>\$ 26,264,027</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, 2012

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

Net change in fund balances - total governmental funds	\$	343,479
<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	\$	1,286,046
Depreciation expense		<u>(1,762,378)</u>
		(476,332)
<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>		
		160,542
<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 position.</p>		
		378,130
<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		(47,252)
Amortization of bond premium		<u>26,544</u>
Change in net position of governmental activities	\$	<u><u>366,880</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, 2012

Revenues	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Taxes:				
City sales tax	\$ 5,946,594	\$ 5,946,594	\$ 5,828,781	\$ (117,813)
Bed tax	1,537,295	1,537,295	1,867,282	329,987
Recovery of sales taxes - audit	250,000	250,000	12,916	(237,084)
Franchise taxes	715,026	715,026	713,577	(1,449)
Total taxes	<u>8,448,915</u>	<u>8,448,915</u>	<u>8,422,556</u>	<u>(26,359)</u>
Licenses and permits	176,986	176,986	276,000	99,014
Intergovernmental revenues:				
State sales tax	758,909	758,909	783,825	24,916
Auto lieu tax	535,325	535,325	476,438	(58,887)
Urban revenue sharing	846,649	846,649	846,624	(25)
Fee-in lieu taxes	331,254	331,254	276,475	(54,779)
Grant revenues	-	-	-	-
Total intergovernmental	<u>2,472,137</u>	<u>2,472,137</u>	<u>2,383,362</u>	<u>(88,775)</u>
Contributions/donations	5,000	5,000	4,305	(695)
Charges for services:				
Parks and recreation	67,766	67,766	64,714	(3,052)
Police	39,160	39,160	60,428	21,268
Total charges for services	<u>106,926</u>	<u>106,926</u>	<u>125,142</u>	<u>18,216</u>
Fines and forfeitures	209,380	209,380	202,465	(6,915)
Interest earnings	238,048	238,048	143,142	(94,906)
Other revenues:				
Tax audits - interest/penalty	113,266	113,266	14,807	(98,459)
Miscellaneous revenues	105,582	105,582	60,053	(45,529)
Total other revenues	<u>218,848</u>	<u>218,848</u>	<u>74,860</u>	<u>(143,988)</u>
Total revenues	<u>11,876,240</u>	<u>11,876,240</u>	<u>11,631,832</u>	<u>(244,408)</u>
Expenditures				
Current:				
General government:				
City council	77,979	77,979	64,273	13,706
City manager	579,017	579,017	568,735	10,282
Human resources	1,789,337	1,789,337	1,621,258	168,079
Financial services	357,759	357,759	352,062	5,697
Information technology	535,860	535,860	527,007	8,853
Legal	364,530	364,530	330,844	33,686
General services	1,056,125	1,056,125	509,891	546,234
Total general government	<u>4,760,607</u>	<u>4,760,607</u>	<u>3,974,070</u>	<u>786,537</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, 2012 (Continued)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	2,203,491	2,203,491	2,132,492	70,999
Municipal court	332,463	332,463	228,421	104,042
Total public safety	<u>2,535,954</u>	<u>2,535,954</u>	<u>2,360,913</u>	<u>175,041</u>
Public works:				
Public works	987,458	987,458	890,587	96,871
Total public works	<u>987,458</u>	<u>987,458</u>	<u>890,587</u>	<u>96,871</u>
Economic development:				
Community development	843,648	843,648	776,251	67,397
Total economic development	<u>843,648</u>	<u>843,648</u>	<u>776,251</u>	<u>67,397</u>
Community services:				
Parks and recreation	1,954,191	1,954,191	1,806,169	148,022
Total community services	<u>1,954,191</u>	<u>1,954,191</u>	<u>1,806,169</u>	<u>148,022</u>
Debt service:				
Principal	378,130	378,130	378,130	-
Interest	547,753	547,753	547,193	560
Total expenditures	<u>12,007,741</u>	<u>12,007,741</u>	<u>10,733,313</u>	<u>1,274,428</u>
Excess of revenues over expenditures	<u>(131,501)</u>	<u>(131,501)</u>	<u>898,519</u>	<u>1,030,020</u>
Other financing sources (uses)				
Transfers out	(666,559)	(666,559)	(518,019)	148,540
Transfers in	45,560	45,560	-	(45,560)
Total other financing sources and (uses)	<u>(620,999)</u>	<u>(620,999)</u>	<u>(518,019)</u>	<u>102,980</u>
Net change in fund balance	(752,500)	(752,500)	380,500	1,133,000
Fund balance - beginning	12,403,438	12,403,438	12,403,438	-
Fund balance - ending	<u>\$ 11,650,938</u>	<u>\$ 11,650,938</u>	<u>\$ 12,783,938</u>	<u>\$ 1,133,000</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 625,731	\$ 625,731	\$ 696,388	\$ 70,657
Interest	38,789	38,789	21,953	(16,836)
Other revenues	-	-	3,349	3,349
Total revenues	<u>664,520</u>	<u>664,520</u>	<u>721,690</u>	<u>57,170</u>
EXPENDITURES				
Public works/Streets:				
Salaries, wages and benefits	279,540	279,540	248,429	31,111
Services, supplies and other	<u>1,809,689</u>	<u>1,809,689</u>	<u>1,120,423</u>	<u>689,266</u>
Total expenditures	<u>2,089,229</u>	<u>2,089,229</u>	<u>1,368,852</u>	<u>720,377</u>
Excess of revenues				
Over (Under) expenditures	<u>(1,424,709)</u>	<u>(1,424,709)</u>	<u>(647,162)</u>	<u>777,547</u>
Other Financing Sources (Uses):				
Transfers out	(4,250)	(4,250)	-	4,250
Transfers in	<u>392,034</u>	<u>392,034</u>	<u>392,034</u>	<u>-</u>
Total other financing Sources (Uses)	<u>387,784</u>	<u>387,784</u>	<u>392,034</u>	<u>4,250</u>
Net change in fund balance	(1,036,925)	(1,036,925)	(255,128)	781,797
Fund balance, beginning of year	<u>1,468,145</u>	<u>1,468,145</u>	<u>1,468,145</u>	<u>-</u>
Fund balance, end of year	<u>\$ 431,220</u>	<u>\$ 431,220</u>	<u>\$ 1,213,017</u>	<u>\$ 781,797</u>

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

CITY OF SEDONA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2012

	Business-Type Activities Wastewater Enterprise Fund
Assets	
Current Assets:	
Cash	\$ 16,473,864
Receivables (net of allowance)	
Accounts receivable	607,876
Capacity fees receivable	103,459
Other	94,384
Total current assets	<u>17,279,583</u>
Noncurrent Assets:	
Deferred charges	840,381
Capital Assets (net of depreciation):	
Land	11,159,413
Construction in progress	11,174
Wastewater system	87,350,015
Machinery, equipment and vehicles	242,762
Total capital assets	<u>98,763,364</u>
Total noncurrent assets	<u>99,603,745</u>
Total Assets	<u>116,883,328</u>
Liabilities	
Current liabilities:	
Accounts payable	213,361
Compensated absences	57,343
Utility deposits	6,750
Unearned revenue	854,005
Interest payable	5,934,491
Bonds payable - current portion	3,880,000
Total current liabilities	<u>10,945,950</u>
Noncurrent liabilities:	
Bonds payable, net of current portion	<u>41,180,343</u>
Total noncurrent liabilities	<u>41,180,343</u>
Total liabilities	<u>52,126,293</u>
Net Position	
Net investment in capital assets	53,703,021
Unrestricted	11,054,014
Total net position	<u><u>\$ 64,757,035</u></u>

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

CITY OF SEDONA, ARIZONA
Statement Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2012

	Business-Type Activities Wastewater Enterprise Fund
Operating Revenues	
Charges for services	\$ 4,943,823
Other income	13,802
Total operating revenues	4,957,625
Operating Expenses	
Wastewater Administration:	
Salaries, wages and benefits	389,293
Services supplies and other	191,152
Wastewater Construction:	
Non-capitalized construction costs	244,020
Wastewater Treatment Plant:	
Salaries, wages and benefits	607,825
Services supplies and other	1,359,151
Depreciation	2,457,203
Total operating expenses	5,248,644
Operating income (loss)	(291,019)
Non-operating Revenues (Expenses)	
Taxes	4,964,583
Recovery of sales taxes	38,065
Capacity fees	201,042
Investment earnings	208,284
Other	775
Interest on long-term debt	(2,250,401)
Issuance costs	(119,915)
Total non-operating revenue (expense)	3,042,433
Change in net position	2,751,414
Net position, beginning of year	62,005,621
Net position, end of year	\$ 64,757,035

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, 2012

	<u>Business-Type Activities Wastewater Enterprise Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 4,855,601
Cash received from customers, other	20,552
Cash paid to suppliers	(2,085,162)
Cash paid to employees	(966,993)
Cash flows from operating activities	<u>1,823,998</u>
Cash Flows From Noncapital and Related Financing Activities:	
Tax receipts	<u>5,002,648</u>
Cash flows from noncapital and related financing activities	<u>5,002,648</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds from long term debt	8,395,000
Purchase of capital assets	(3,141,068)
Bond issue costs	(278,650)
Principal paid on long term debt	(12,890,000)
Interest paid	(813,552)
Capacity fees and other	187,117
Cash flows from capital and related financing activities	<u>(8,541,153)</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>208,284</u>
Net change in cash and cash equivalents	(1,506,223)
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>17,980,087</u>
Cash and cash equivalents, including temporarily restricted cash , end of year	<u><u>\$ 16,473,864</u></u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net operating income/(loss)	\$ (291,019)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	2,457,203
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	(88,222)
Increase/(Decrease) in payables	(290,839)
Increase/(Decrease) in customer deposits	6,750
Increase/(Decrease) in accrued wages and compensation	<u>30,125</u>
Net cash flows from operating activities	<u><u>\$ 1,823,998</u></u>

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

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, 2012

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 position and the statement of changes in net position) 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, 2012

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, 2012

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 Position 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, 2012

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 position 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 position. 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, 2012

Note 1. Summary of Significant Accounting Policies, Continued

Net Position 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 position and is displayed in three components as follows:

Net investment in capital assets 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 position is net position 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 position is all other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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 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, 2012

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 2008 and extended on October 11, 2011.
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, 2012

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, 2012.

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, 2012, 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 position is as follows:

Cash and cash equivalents	\$ 32,835,952
Restricted cash and cash equivalents	9,466,527
	<u>\$ 42,302,479</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, 2012, none of the City's bank balance of \$15,018,164 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, 2012

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, 2012 the City had the following deposits and investments:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Cash on deposit	\$ 14,571,857	N/A	N/A
Cash on hand	1,920	N/A	N/A
U.S. Treasury Notes	1,014,961	N/A	1 -3 Years
Local Governments Investment Pool	<u>26,713,742</u>	(1)	(2)
	<u><u>\$ 42,302,480</u></u>		

(1) The City’s investment in the State Treasurer’s Investment Pool #5 was rated AA Af/S1+ from Standard and Poor’s. Investment Pool #7 and Investment Pool #500 were unrated.

(2) The City’s investment in the State Treasurer’s Investment Pool #5 had a Weighted Average Maturity of .07 years. Investment Pool #7’s Weighted Average Maturity was .08 years and Investment Pool #500’s Weighted Average Maturity was 7.26 years.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

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, 2012:

Governmental Activities:

Special Revenue Funds:

Highways and streets	\$ 1,246,964
Grants	154,221
Debt Service	691,099
Development fees	3,389,783

Capital Project Funds:

Bond proceeds	2,325,112
County Flood Control	1,659,348
	<u>\$ 9,466,527</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets, not being depreciated:				
Land	\$ 6,960,501	\$ -	\$ -	\$ 6,960,501
Construction in progress	-	622,794	-	622,794
Total capital assets, not being depreciated	<u>6,960,501</u>	<u>622,794</u>	<u>-</u>	<u>7,583,295</u>
Capital assets, being depreciated:				
Land improvements	4,725,152	203,790	-	4,928,942
Buildings and improvements	6,507,439	12,775	-	6,520,214
Machinery, equipment and vehicles	4,982,934	429,187	(149,422)	5,262,699
Infrastructure	19,827,475	17,500	-	19,844,975
Total capital assets, being depreciated	<u>36,043,000</u>	<u>663,252</u>	<u>(149,422)</u>	<u>36,556,830</u>
Less accumulated depreciation for:				
Land improvements	(1,307,681)	(135,469)	-	(1,443,150)
Buildings and improvements	(2,069,627)	(231,837)	-	(2,301,464)
Machinery, equipment and vehicles	(4,188,781)	(463,713)	149,422	(4,503,072)
Infrastructure	(6,468,546)	(931,359)	-	(7,399,905)
Total accumulated depreciation	<u>(14,034,635)</u>	<u>(1,762,378)</u>	<u>149,422</u>	<u>(15,647,591)</u>
Total capital assets, being depreciated, net	<u>22,008,365</u>	<u>(1,099,126)</u>	<u>-</u>	<u>20,909,239</u>
Governmental activities capital assets, net	<u>\$ 28,968,866</u>	<u>\$ (476,332)</u>	<u>\$ -</u>	<u>\$ 28,492,534</u>

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

Governmental Activities:	
General government	\$ 549,592
Public safety	131,836
Public works/streets	938,506
Community services	142,444
Total depreciation expense - governmental activities	<u>\$ 1,762,378</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

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 6/30/2011	Additions	Deletions	Balance 6/30/2012
Capital assets not being depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Construction in progress	-	11,174	-	11,174
Total capital assets, not being depreciated	<u>11,159,413</u>	<u>11,174</u>	<u>-</u>	<u>11,170,587</u>
Capital assets being depreciated:				
Wastewater system	110,066,367	3,125,204	-	113,191,571
Machinery, equipment and vehicles	4,610,617	4,691	-	4,615,308
Total capital assets, being depreciated	<u>114,676,984</u>	<u>3,129,895</u>	<u>-</u>	<u>117,806,879</u>
Less accumulated depreciation for:				
Wastewater system	(23,519,330)	(2,322,226)	-	(25,841,556)
Machinery, equipment and vehicles	(4,237,569)	(134,977)	-	(4,372,546)
Total accumulated depreciation	<u>(27,756,899)</u>	<u>(2,457,203)</u>	<u>-</u>	<u>(30,214,102)</u>
Total capital assets, being depreciated, net	<u>86,920,085</u>	<u>672,692</u>	<u>-</u>	<u>87,592,777</u>
Business-type activities capital assets, net	<u>\$ 98,079,498</u>	<u>\$ 683,866</u>	<u>\$ -</u>	<u>\$ 98,763,364</u>

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

Business-Type Activities:	
Wastewater	<u>\$ 2,457,203</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

	Balance 6/30/2011	Additions	Retirements	Balance 6/30/2012	Current Portion
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 11,655,000	\$ -	\$ (355,000)	\$ 11,300,000	\$ 330,000
Deferred Amounts:					
On refunding	(375,400)	-	47,252	(328,148)	-
Premium	218,588	-	(26,544)	192,044	-
Total Revenue Bonds	<u>11,498,188</u>	<u>-</u>	<u>(334,292)</u>	<u>11,163,896</u>	<u>330,000</u>
Other Liabilities:					
Capital leases	64,328	-	(23,130)	41,198	24,308
Compensated absences	349,821	349,821	(349,821)	349,821	316,588
Total Other Liabilities	<u>414,149</u>	<u>349,821</u>	<u>(372,951)</u>	<u>391,019</u>	<u>340,896</u>
Total Governmental Long-Term Debt	<u>\$ 11,912,337</u>	<u>\$ 349,821</u>	<u>\$ (707,243)</u>	<u>\$ 11,554,915</u>	<u>\$ 670,896</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 48,275,000	\$ 8,395,000	\$ (12,890,000)	\$ 43,780,000	\$ 3,880,000
Deferred Amounts:					
On refunding	(1,127,508)	-	178,514	(948,994)	-
Premium	1,282,803	-	946,534	2,229,337	-
Total Revenue Bonds	<u>48,430,295</u>	<u>8,395,000</u>	<u>(11,764,952)</u>	<u>45,060,343</u>	<u>3,880,000</u>
Other Liabilities:					
Compensated absences	27,218	57,344	(27,219)	57,343	51,895
Total Other Liabilities	<u>27,218</u>	<u>57,344</u>	<u>(27,219)</u>	<u>57,343</u>	<u>51,895</u>
Total Business-Type Long-Term Debt	<u>\$ 48,457,513</u>	<u>\$ 8,452,344</u>	<u>\$ (11,792,171)</u>	<u>\$ 45,117,686</u>	<u>\$ 3,931,895</u>
Total Long-Term Liabilities	<u>\$ 60,369,850</u>	<u>\$ 8,802,165</u>	<u>\$ (12,499,414)</u>	<u>\$ 56,672,601</u>	<u>\$ 4,602,791</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, 2012

Note 6. Long-Term Debt, Continued

The following is a listing of revenue obligation bonds outstanding as of June 30, 2012:

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.	\$ 6,305,000
Excise Tax Revenue Refunding Obligations, Series 2012; original issue \$8.395 million, interest at 4.5% maturing July 1, 2026, used to refund portion of Excise Tax Revenue Obligations, Series 1998.	8,395,000
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	2,505,000
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.	10,290,000
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	4,930,000
Total Revenue Bonds Payable	\$ 55,080,000
Classification by type:	
Governmental-type Activities	\$ 11,300,000
Business-type Activities	43,780,000
Total Revenue Bonds Payable	\$ 55,080,000

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

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
2013	\$ 330,000	\$ 517,767	\$ 3,880,000	\$ 2,200,226
2014	330,000	501,266	4,075,000	2,015,326
2015	345,000	484,767	3,775,000	1,821,026
2016	345,000	467,516	4,605,000	1,642,126
2017	380,000	450,266	4,790,000	1,426,176
2018-2022	4,675,000	1,686,295	11,940,000	13,638,628
2023-2027	4,895,000	695,050	10,715,000	8,503,701
	-	-	-	-
Totals	<u>\$ 11,300,000</u>	<u>\$ 4,802,927</u>	<u>\$ 43,780,000</u>	<u>\$ 31,247,209</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	\$ 14,899,526
Total excise taxes current year	\$ 12,660,646

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, 2012, 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, 2012

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, 2012 are as follows:

Year Ending June 30	
2013	\$ 25,809
2014	17,206
Total remaining minimum lease payments	43,015
Less amount representing interest	1,817
Present value of net remaining minimum lease payments	\$ 41,198

Assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$ 114,032
Less: Accumulated depreciation	(96,328)
Total	\$ 17,704

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2012, 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, 2012

Note 7. Interfund Receivables, Payables and Transfers, Continued

Interfund transfers for the fiscal year ended June 30, 2012 are as follows:

Transfers out:	Transfers in:			Total
	Capital Improvement Fund	Highway Users Revenue Fund	Nonmajor Governmental Funds	
General Fund	\$ 122,734	\$ 392,034	\$ 3,251	\$ 518,019
Capital Improvement Fund	-	-	320,354	320,354
Total	<u>\$ 122,734</u>	<u>\$ 392,034</u>	<u>\$ 323,605</u>	<u>\$ 838,373</u>

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, 2012

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 10.74 percent (10.50 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 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
2010	484,060	31,698	13,431
2011	376,429	24,027	9,153
2012	403,982	25,786	9,823

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, 2012

Note 9. Retirement and Pension Plans, Continued

Funding Policy - 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 12.96 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, 2012, was 24 years for unfunded actuarial accrued liability and 19 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, 2012 the City's annual pension cost of \$209,300 and the annual OPEB cost of \$21,952 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	2010	199,528	100%	-
	2011	247,359	100%	-
	2012	209,300	100%	-
Health Insurance	2010	15,909	100%	-
	2011	21,131	100%	-
	2012	21,952	100%	-

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2012

Note 9. Retirement and Pension Plans, Continued

Funded Status and Funding Progress - The funded status of the plan as of June 30, 2011 (Latest actuarial date available) is as follows:

Actuarial accrued liability (AAL)	\$ 5,992,191
Actuarial value of plan assets	4,973,183
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,019,008</u>
Funded ratio (actuarial value of plan assets/AAL)	83.0%
Covered payroll (active plan members)	\$ 1,237,609
UAAL as a percentage of covered payroll	82.3%

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

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, 2012.

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.

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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, 2012, based on actuarial valuations follows:

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 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%
2012*	**	**	**	**	**	**

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

Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b) - (a) Unfunded AAL (UAAL)	(a)/(b) Funded Ratio	(c) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30, 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%
2012*	**	**	**	**	**	**

* For fiscal years prior to 2009 (which were prior to implementation of GASB Statement Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2009 GASB Statements Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

** Information for fiscal year 2012 is not yet available.

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 1,802,000	\$ 1,802,000	\$ 766,054	\$ (1,035,946)
Interest	61,874	61,874	52,891	(8,983)
Other	-	-	42,642	42,642
Total revenues	<u>1,863,874</u>	<u>1,863,874</u>	<u>861,587</u>	<u>(1,002,287)</u>
EXPENDITURES				
Capital outlay	\$ 3,182,881	\$ 3,182,881	\$ 818,331	\$ 2,364,550
Total expenditures	<u>3,182,881</u>	<u>3,182,881</u>	<u>818,331</u>	<u>2,364,550</u>
Excess of revenues				
Over (Under) expenditures	(1,319,007)	(1,319,007)	43,256	1,362,263
Other Financing Sources (Uses):				
Transfers out	(395,811)	(395,811)	(320,354)	75,457
Transfers in	269,766	269,766	122,734	(147,032)
Total other financing Sources (Uses)	<u>(126,045)</u>	<u>(126,045)</u>	<u>(197,620)</u>	<u>(71,575)</u>
Net change in fund balances	(1,445,052)	(1,445,052)	(154,364)	1,290,688
Fund balance, beginning of year	<u>8,098,313</u>	<u>8,098,313</u>	<u>8,098,313</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,653,261</u>	<u>\$ 6,653,261</u>	<u>\$ 7,943,949</u>	<u>\$ 1,290,688</u>

CITY OF SEDONA, ARIZONA
WASTEWATER ENTERPRISE FUND
Schedule of Revenues, Expenditures and Changes in Net Position
Budget and Actual (Budgetary Basis)
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 4,534,507	\$ 4,534,507	\$ 4,943,823	\$ 409,316
Capacity fees	150,000	150,000	201,042	51,042
Taxes	5,056,617	5,056,617	4,964,583	(92,034)
Recovery of sales taxes	-	-	38,065	38,065
Investment earnings	405,568	405,568	208,284	(197,284)
Other income	28,333	28,333	14,577	(13,756)
Total revenues	10,175,025	10,175,025	10,370,374	195,349
Expenses				
Wastewater Administration:				
Salaries, wages and benefits	418,212	418,212	389,293	28,919
Services supplies and other	141,133	141,133	191,152	(50,019)
Wastewater Construction	4,242,597	4,242,597	3,385,088	857,509
Wastewater Treatment Plant:				
Salaries, wages and benefits	606,118	606,118	607,825	(1,707)
Services supplies and other	1,521,097	1,521,097	1,359,151	161,946
Debt service	5,784,147	5,784,147	15,140,401	(9,356,254)
Total expenses	12,713,304	12,713,304	21,072,910	(8,359,606)
Excess (deficiency) of revenues over expenses	(2,538,279)	(2,538,279)	(10,702,536)	8,554,955
Other Financing Sources (Uses)				
Debt issues	-	-	8,395,000	8,395,000
Total other financing sources (uses)	-	-	8,395,000	8,395,000
Change in net position	(2,538,279)	(2,538,279)	(2,307,536)	16,949,955
Net position, beginning of year	32,579,857	32,579,857	32,579,857	-
Net position, end of year	\$ 30,041,578	\$ 30,041,578	\$ 30,272,321	\$ 16,949,955

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

Net position, end of year, budgetary basis	30,272,321
Adjustments to reconcile to net position:	
Adjustment for differences reported in previous years	29,425,764
Adjustments for current year:	
Depreciation	(2,457,203)
Capital outlay	3,141,068
Principal paid on long term debt	12,890,000
Debt issues	(8,395,000)
Issuance costs	(119,915)
Net position, end of year	\$ 64,757,035

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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, 2012

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
ASSETS				
Cash	\$ -	\$ -	\$ -	\$ 21,358
Receivables:				
Taxes	-	11,875	33,702	-
Intergovernmental	101,542	-	-	-
Restricted Cash	154,221	10,999	680,100	-
Total assets	<u>\$ 255,763</u>	<u>\$ 22,874</u>	<u>\$ 713,802</u>	<u>\$ 21,358</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 13,244	\$ -	\$ -	\$ -
Deferred revenues	-	11,875	-	-
Total liabilities	<u>13,244</u>	<u>11,875</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Public safety	242,519	-	-	-
Community services	-	10,999	713,802	-
Capital outlay	-	-	-	-
Committed to:				
Community services	-	-	-	21,358
Total fund balances	<u>242,519</u>	<u>10,999</u>	<u>713,802</u>	<u>21,358</u>
Total liabilities and fund balances	<u>\$ 255,763</u>	<u>\$ 22,874</u>	<u>\$ 713,802</u>	<u>\$ 21,358</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>
\$ -	\$ 82,805	\$ 104,163
-	-	45,577
-	-	101,542
<u>3,389,783</u>	<u>-</u>	<u>4,235,103</u>
<u>\$ 3,389,783</u>	<u>\$ 82,805</u>	<u>\$ 4,486,385</u>
\$ 55,338	\$ 82,805	\$ 151,387
<u>-</u>	<u>-</u>	<u>11,875</u>
<u>55,338</u>	<u>82,805</u>	<u>163,262</u>
-	-	242,519
-	-	724,801
3,334,445	-	3,334,445
-	-	21,358
<u>3,334,445</u>	<u>-</u>	<u>4,323,123</u>
<u>\$ 3,389,783</u>	<u>\$ 82,805</u>	<u>\$ 4,486,385</u>

CITY OF SEDONA, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
REVENUES:				
Taxes	\$ -	\$ 35,627	\$ 135,948	\$ -
Intergovernmental	286,111	-	-	-
Contributions/donations	35,037	-	-	-
Impact fees	-	-	-	-
Investment earnings	-	3,263	2,012	319
Total revenues	<u>321,148</u>	<u>38,890</u>	<u>137,960</u>	<u>319</u>
EXPENDITURES:				
Current:				
General government	-	7,891	7,892	-
Public safety	189,790	-	-	-
Public works/Streets	6,133	-	-	-
Economic development	48,331	-	-	-
Community services	13,164	20,000	20,000	54,110
Capital outlay	-	-	-	-
Total expenditures	<u>257,418</u>	<u>27,891</u>	<u>27,892</u>	<u>54,110</u>
Excess of revenues				
Over (under) expenditures	<u>63,730</u>	<u>10,999</u>	<u>110,068</u>	<u>(53,791)</u>
Other Financing Sources (Uses):				
Transfers in	<u>3,251</u>	<u>-</u>	<u>-</u>	<u>1,345</u>
Total other financing sources (uses):	<u>3,251</u>	<u>-</u>	<u>-</u>	<u>1,345</u>
Net change in fund balances	66,981	10,999	110,068	(52,446)
Fund balances, beginning of year	<u>175,538</u>	<u>-</u>	<u>603,734</u>	<u>73,804</u>
Fund balances, end of year	<u>\$ 242,519</u>	<u>\$ 10,999</u>	<u>\$ 713,802</u>	<u>\$ 21,358</u>

Capital Project		Total
Development Impact Fee	Information Systems	Nonmajor Governmental Funds
\$ -	\$ -	\$ 171,575
-	-	286,111
-	-	35,037
297,107	-	297,107
61,150	-	66,744
<u>358,257</u>	<u>-</u>	<u>856,574</u>
-	317,882	333,665
-	-	189,790
-	-	6,133
-	-	48,331
-	1,127	108,401
121,388	-	121,388
<u>121,388</u>	<u>319,009</u>	<u>807,708</u>
<u>236,869</u>	<u>(319,009)</u>	<u>48,866</u>
<u>-</u>	<u>319,009</u>	<u>323,605</u>
<u>-</u>	<u>319,009</u>	<u>323,605</u>
236,869	-	372,471
3,097,576	-	3,950,652
<u>\$ 3,334,445</u>	<u>\$ -</u>	<u>\$ 4,323,123</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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 2,444,085	\$ 2,444,085	\$ 286,111	\$ (2,157,974)
Contributions/donations	25,000	25,000	35,037	10,037
Other	500	500	-	(500)
Total revenues	<u>2,469,585</u>	<u>2,469,585</u>	<u>321,148</u>	<u>(2,148,437)</u>
EXPENDITURES				
Current:				
General government	900,000	900,000	-	900,000
Public safety	597,563	597,563	189,790	407,773
Public works/streets	552,000	552,000	6,133	545,867
Economic development	375,300	375,300	48,331	326,969
Community services	52,944	52,944	13,164	39,780
Total expenditures	<u>2,477,807</u>	<u>2,477,807</u>	<u>257,418</u>	<u>2,220,389</u>
Excess of revenues				
Over (Under) expenditures	(8,222)	(8,222)	63,730	71,952
Other Financing Sources (Uses):				
Transfers in	4,759	4,759	3,251	(1,508)
Total other financing Sources (Uses)	<u>4,759</u>	<u>4,759</u>	<u>3,251</u>	<u>(1,508)</u>
Net change in fund balance	(3,463)	(3,463)	66,981	70,444
Fund balance, beginning of year	<u>175,538</u>	<u>175,538</u>	<u>175,538</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 172,075</u></u>	<u><u>\$ 172,075</u></u>	<u><u>\$ 242,519</u></u>	<u><u>\$ 70,444</u></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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 102,603	\$ 102,603	\$ 35,627	\$ (66,976)
Interest	7,292	7,292	3,263	(4,029)
Total revenues	<u>109,895</u>	<u>109,895</u>	<u>38,890</u>	<u>(4,029)</u>
EXPENDITURES				
Current:				
General government	\$ 20,000	\$ 20,000	\$ 7,891	\$ 12,109
Public works/streets	25,000	25,000	-	25,000
Community services	20,000	20,000	20,000	-
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>27,891</u>	<u>37,109</u>
Excess of revenues				
Over (Under) expenditures	44,895	44,895	10,999	(33,896)
Other Financing Sources (Uses):				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
Total other financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	44,895	44,895	10,999	(33,896)
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 44,895</u>	<u>\$ 44,895</u>	<u>\$ 10,999</u>	<u>\$ (33,896)</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 108,995	\$ 108,995	\$ 135,948	\$ 26,953
Interest	6,766	6,766	2,012	(4,754)
Total revenues	<u>115,761</u>	<u>115,761</u>	<u>137,960</u>	<u>22,199</u>
EXPENDITURES				
Current:				
General government	\$ 20,000	\$ 20,000	\$ 7,892	\$ 12,108
Public works/streets	25,000	25,000	-	25,000
Community services	20,000	20,000	20,000	-
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>27,892</u>	<u>37,108</u>
Excess of revenues				
Over (Under) expenditures	50,761	50,761	110,068	59,307
Fund balance, beginning of year	<u>603,734</u>	<u>603,734</u>	<u>603,734</u>	<u>-</u>
Fund balance, end of year	<u>\$ 654,495</u>	<u>\$ 654,495</u>	<u>\$ 713,802</u>	<u>\$ 59,307</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 750	\$ 750	\$ 319	\$ (431)
Total revenues	<u>750</u>	<u>750</u>	<u>319</u>	<u>(431)</u>
EXPENDITURES				
Current:				
Community services	\$ 125,000	\$ 125,000	\$ 54,110	\$ 70,890
Total expenditures	<u>125,000</u>	<u>125,000</u>	<u>54,110</u>	<u>70,890</u>
Excess of revenues Over (Under) expenditures	(124,250)	(124,250)	(53,791)	70,459
Other Financing Sources (Uses):				
Transfers in	<u>35,000</u>	<u>35,000</u>	<u>1,345</u>	<u>(33,655)</u>
Total other financing Sources (Uses)	<u>35,000</u>	<u>35,000</u>	<u>1,345</u>	<u>(33,655)</u>
Net change in fund balance	(89,250)	(89,250)	(52,446)	36,804
Fund balance, beginning of year	<u>73,804</u>	<u>73,804</u>	<u>73,804</u>	<u>-</u>
Fund balance, end of year	<u>\$ (15,446)</u>	<u>\$ (15,446)</u>	<u>\$ 21,358</u>	<u>\$ 36,804</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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Impact fees	\$ 105,855	\$ 105,855	\$ 297,107	\$ 191,252
Interest	101,007	101,007	61,150	(39,857)
Total revenues	<u>206,862</u>	<u>206,862</u>	<u>358,257</u>	<u>151,395</u>
EXPENDITURES				
Capital outlay	<u>1,290,000</u>	<u>1,290,000</u>	<u>121,388</u>	<u>1,168,612</u>
Total expenditures	<u>1,290,000</u>	<u>1,290,000</u>	<u>121,388</u>	<u>1,168,612</u>
Excess of revenues				
Over (Under) expenditures	(1,083,138)	(1,083,138)	236,869	1,320,007
Fund balance, beginning of year	<u>3,097,576</u>	<u>3,097,576</u>	<u>3,097,576</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 2,014,438</u></u>	<u><u>\$ 2,014,438</u></u>	<u><u>\$ 3,334,445</u></u>	<u><u>\$ 1,320,007</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, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	-	-	-	-
EXPENDITURES				
General government	359,311	359,311	317,882	41,429
Public safety	-	-	-	-
Public works/streets	-	-	-	-
Community services	1,500	1,500	1,127	373
Total expenditures	360,811	360,811	319,009	41,802
Excess of revenues				
Over (Under) expenditures	(360,811)	(360,811)	(319,009)	41,802
Other Financing Sources (Uses):				
Transfers in	360,811	360,811	319,009	(41,802)
Total other financing Sources (Uses)	360,811	360,811	319,009	(41,802)
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ -	\$ -

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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 Position by Component
Last Ten Fiscal Years (Unaudited)
(accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
Net investment in capital assets	\$ 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	\$ 17,287,440
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	9,015,587
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	17,968,102
Total governmental activities net position	\$ 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	\$ 44,271,129
Business-type activities										
Net investment in capital assets	\$ 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	\$ 53,703,021
Restricted	1,081,883	1,096,724	1,123,821	1,175,288	1,240,451	587,477	100,818	92,327	-	-
Unrestricted	21,640,720	23,007,530	24,125,985	28,159,833	24,725,339	24,903,093	18,611,712	13,437,348	12,356,418	11,054,014
Total Business-type activities net position	\$ 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	\$ 64,757,035
Primary government										
Net investment in capital assets	\$ 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	\$ 70,990,461
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	9,015,587
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	29,022,116
Total primary government net position	\$ 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	\$ 109,028,164

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 Position
Last Ten Fiscal Years (Unaudited)
(accrual basis of accounting)

Expenses	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	\$ 5,602,556
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	2,486,555
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	3,204,078
Community services	245,989	148,340	497,465	648,177	789,371	1,058,508	1,037,534	815,848	1,357,077	2,004,255
Interest on long-term debt	82,610	72,119	60,907	96,414	256,297	309,469	755,167	636,191	583,175	567,901
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	13,865,345
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	7,618,960
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	7,618,960
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	\$ 21,484,305
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	289,510
Public safety	12,492	14,901	14,211	12,282	9,257	52,491	96,472	42,929	200,129	202,465
Highways and streets	278,407	449,871	416,376	292,668	276,348	364,474	200,290	159,839	139,856	27,583
Community services	42,361	34,253	36,728	30,646	39,557	40,590	103,587	124,140	57,475	64,714
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	1,776,788
Capital grants and contributions	241,663	1,968,924	367,035	783,213	523,562	550,975	337,391	426,903	918,037	688,239
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	3,049,299
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	5,159,442
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	5,159,442
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	\$ 8,208,741

(continued)

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

	<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>	<u>2012</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)	\$ (10,816,046)
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)	(2,459,518)
Total primary government net expense	<u>\$ (6,872,283)</u>	<u>\$ (7,898,909)</u>	<u>\$ (10,031,830)</u>	<u>\$ (11,569,481)</u>	<u>\$ (14,809,517)</u>	<u>\$ (15,683,294)</u>	<u>\$ (20,601,058)</u>	<u>\$ (17,197,099)</u>	<u>\$ (13,157,670)</u>	<u>\$ (13,275,564)</u>
General Revenues and Other										
Changes in Net Assets										
Governmental activities:										
Taxes:										
Sales taxes	\$ 6,103,167	\$ 6,501,598	\$ 6,558,330	\$ 8,356,298	\$ 8,432,983	8,571,160	\$ 8,097,544	\$ 7,208,703	\$ 7,799,486	\$ 7,729,483
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	713,577
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	846,624
State sales taxes	797,094	857,455	944,190	1,082,364	1,039,344	1,004,970	870,023	802,470	830,562	783,825
Auto-in-lieu	697,320	548,663	579,030	654,636	603,640	585,027	593,707	551,996	543,380	476,438
Bed tax in-lieu	-	-	-	-	-	-	-	-	-	380,270
Investment earnings	(270,533)	147,336	446,834	880,958	1,044,373	1,021,475	735,011	533,139	166,085	215,593
Other	18,310	5,481	13,414	62,441	44,178	44,351	244,088	1,405,705	88,974	37,116
In Lieu of Fees										
Transfers	-	-	130,000	-	-	-	479,856	404,856	-	-
Total governmental activities	<u>9,080,547</u>	<u>9,718,835</u>	<u>10,362,909</u>	<u>12,934,250</u>	<u>13,295,003</u>	<u>13,737,355</u>	<u>13,888,161</u>	<u>13,378,311</u>	<u>11,191,909</u>	<u>11,182,926</u>
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	5,002,648
Investment earnings	(193,905)	257,470	638,993	1,048,673	1,493,451	1,423,139	734,783	409,512	134,460	208,284
Transfers	-	-	(130,000)	-	-	-	(479,856)	(404,856)	-	-
Total business-type activities	<u>4,668,445</u>	<u>5,473,349</u>	<u>5,629,984</u>	<u>6,590,315</u>	<u>7,226,275</u>	<u>7,106,457</u>	<u>5,690,113</u>	<u>4,930,457</u>	<u>5,547,533</u>	<u>5,210,932</u>
Total Primary government	<u>\$ 13,748,992</u>	<u>\$ 15,192,184</u>	<u>\$ 15,992,893</u>	<u>\$ 19,524,565</u>	<u>\$ 20,521,278</u>	<u>\$ 20,843,812</u>	<u>\$ 19,578,274</u>	<u>\$ 18,308,768</u>	<u>\$ 16,739,442</u>	<u>\$ 16,393,858</u>
Change in Net Position										
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	\$ 366,880
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	2,751,414
Total primary government	<u>\$ 6,876,709</u>	<u>\$ 7,293,275</u>	<u>\$ 5,961,063</u>	<u>\$ 7,955,084</u>	<u>\$ 5,711,761</u>	<u>\$ 5,160,518</u>	<u>\$ (1,022,784)</u>	<u>\$ 1,111,669</u>	<u>\$ 3,581,772</u>	<u>\$ 3,118,294</u>

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>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>	<u>2012</u>
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	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	12,783,938
Total general fund	<u>\$ 8,145,901</u>	<u>\$ 8,712,623</u>	<u>\$ 8,933,380</u>	<u>\$ 9,883,448</u>	<u>\$ 10,163,442</u>	<u>\$ 10,273,435</u>	<u>\$ 9,468,179</u>	<u>\$ 11,157,413</u>	<u>\$ 12,403,438</u>	<u>\$ 12,783,938</u>
 All other governmental funds										
Restricted:										
Roads and Highways	\$ 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	\$ 1,213,017
Capital Outlay *	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	6,835,250
Debt service	331,165	351,997	351,727	328,012	274,795	225,510	(1,923)	-	-	-
Other	494,848	650,691	808,043	935,630	1,162,225	1,388,547	1,810,903	1,010,866	779,272	967,320
Committed for:										
Arts	21,911	43,441	59,532	68,848	104,162	118,316	142,277	115,108	73,804	21,358
Capital Outlay *	-	-	-	-	-	-	-	-	4,394,902	4,443,144
Assigned for:										
Other	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 8,510,110</u>	<u>\$ 10,491,503</u>	<u>\$ 10,558,760</u>	<u>\$ 10,321,886</u>	<u>\$ 7,706,477</u>	<u>\$ 16,795,040</u>	<u>\$ 14,489,358</u>	<u>\$ 12,863,880</u>	<u>\$ 13,517,110</u>	<u>\$ 13,480,089</u>

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
Last Ten Fiscal Years (Unaudited)
(modified accrual basis of accounting)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	\$ 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	\$ 8,594,131
Intergovernmental	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	4,131,915
Fines and forfeitures	169,143	190,270	168,953	216,431	324,562	368,785	268,848	269,104	200,129	202,465
Licenses and permits	234,908	233,951	230,797	186,037	192,882	164,807	212,366	207,092	179,555	276,000
Charges for services	144,997	161,231	546,461	144,563	153,751	154,194	161,103	184,458	98,339	125,142
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	39,342
Impact fees	-	-	416,376	292,668	276,348	364,474	302,216	278,352	154,162	297,107
Special assessments	271,817	279,565	252,155	221,518	197,125	203,172	163,266	-	-	-
Investment earnings	(267,334)	149,620	442,627	877,907	1,037,999	1,021,475	735,012	533,139	221,786	284,730
Other	501,968	638,928	64,271	199,436	45,244	133,662	235,581	506,745	292,300	120,851
Total Revenues	\$ 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	\$ 14,071,683
Expenditures										
Current:										
General government	\$ 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	\$ 5,132,317
Public safety	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	2,550,703
Highways and streets	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	2,265,572
Community services	699,563	730,158	640,865	646,384	807,619	970,037	1,169,314	843,316	1,654,380	1,914,570
Capital outlay	-	-	-	-	-	-	-	-	640,589	939,719
Principal	175,000	190,000	200,000	215,000	535,000	550,000	586,753	345,942	362,009	378,130
Interest and fiscal charges	82,610	72,119	60,907	49,161	209,044	262,216	689,685	570,707	562,465	547,193
Total expenditures	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	13,728,204
Revenues over (under) expenditures	1,035,622	2,548,115	497,739	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)	945,923	343,479
Other finance sources (Uses)										
Proceeds of refunding debt issuance	-	-	4,941,446	-	-	-	-	-	-	-
Proceeds of long-term debt issuance	-	-	-	-	-	8,810,604	114,032	-	-	-
Payment to refunded debt escrow agent	-	-	(5,281,171)	-	-	-	-	-	-	-
Transfers in	1,062,104	412,946	362,337	422,475	467,376	600,874	881,308	1,669,463	316,125	838,373
Transfers out	(1,062,104)	(412,946)	(232,337)	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)	(316,125)	(838,373)
Total other finance sources (uses)	-	-	(209,725)	-	-	8,943,917	593,888	404,856	-	-
Net change in fund balances	\$ 1,035,622	\$ 2,548,115	\$ 288,014	\$ 713,194	\$ (2,335,415)	\$ 9,198,556	\$ (3,110,938)	\$ 63,756	\$ 945,923	\$ 343,479
Debt service as a percentage of noncapital expenditures	2.34%	2.24%	1.90%	1.66%	4.06%	5.02%	6.61%	5.85%	7.93%	7.80%

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

Tax Remitter	Fiscal Year 2012				Fiscal Year 2003		
	Tax Liability	Rank	Percentage of Total		Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 4,238,541	1	33.9%	Retail Trade	\$ 3,267,608	1	29.7%
Hotels & Other Lodging	3,583,876	2	28.6%	Hotels & Other Lodging	2,435,845	2	22.1%
Restaurants & Bars	1,822,094	3	14.6%	Construction	1,953,384	3	17.8%
Construction	845,718	4	6.8%	Restaurants & Bars	1,302,645	4	11.8%
Insurance & Real Estate	770,388	5	6.2%	Services	694,261	5	6.3%
Trans/Comm/Utilities	610,278	6	4.9%	Insurance & Real Estate	592,665	6	5.4%
Services	569,619	7	4.5%	Trans/Comm/Utilities	530,430	7	4.8%
Municipality & All Other	37,735	8	0.3%	Wholesale Trade	127,935	8	1.2%
Wholesale Trade	27,402	9	0.2%	Municipality & All Other	52,201	9	0.5%
Manufacturing	15,124	10	0.1%	Manufacturing	43,979	10	0.4%
	<u>\$ 12,520,775</u>		<u>100.0%</u>		<u>\$ 11,000,953</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>
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
2012	5,841,697	1,867,282	276,475	713,577	8,699,031

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>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>	<u>2012</u>
Mining	\$ -	\$ 38	\$ 586	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125	\$ 62	\$ -
Construction	\$ 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	\$ 845,718
Manufacturing	49,729	329,459	379,754	392,883	385,046	327,604	309,407	265,998	183,658	15,124
Transportation, Communication and Utilities	549,154	634,559	637,664	675,906	689,975	694,121	670,573	704,133	691,194	610,278
Wholesale trade	137,217	117,504	123,798	122,250	139,891	130,121	135,271	121,420	70,613	27,402
Retail trade	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	4,238,541
Restaurants and bars	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	1,822,094
Finance, Insurance and real estate	617,143	838,876	923,366	873,166	974,352	896,313	861,924	853,836	800,883	770,388
Accommodations	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	3,583,876
Services	746,237	651,305	687,305	403,291	423,789	397,286	321,006	349,848	509,518	569,619
Public administration	3,940	7,908	9,349	5,934	36,147	22,927	21,339	11,831	6,370	24,763
All other outlets	38,574	234,221	22,470	168,299	464,840	477,197	426,937	447,836	284,872	12,972
	<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>	<u>\$ 12,520,775</u>
Direct sales tax rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Source: Arizona Department of Revenue

Note: Fiscal Year 2012 amounts reflect receipts through June 2012

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>
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%
2012	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			
2003	\$ 316,767	\$ 4,745,000	\$ -	\$ 1,335,000	\$ 58,788,233	\$ 1,453,934	\$ -	\$ 66,638,934	1934.00%	\$ 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
2012	11,300,000	-	41,198	-	43,780,000	-	-	55,121,198	17.53	5,495

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)					
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
2012	-	-		-	-	-	N/A

Special Assessment Bonds					
Fiscal Year	Special Assessment Collections	Principal	Interest	Total	Coverage
	2003				
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
2012	-	-	-	-	N/A

Excise Tax Revenue Bonds					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
2003	\$ 14,709,139	\$ 330,000	\$ 1,854,471	\$ 2,184,471	6.73
2004	15,788,803	1,511,617	1,841,271	3,352,888	4.71
2005	16,354,103	1,240,000	2,040,386	3,280,386	4.99
2006	19,258,257	2,095,000	2,596,486	4,691,486	4.10
2007	18,650,420	2,500,000	2,494,986	4,994,986	3.73
2008	18,369,596	3,510,000	2,849,386	6,359,386	2.89
2009	17,970,410	3,510,000	3,016,669	6,526,669	2.75
2010	15,958,669	3,665,000	2,861,257	6,526,257	2.45
2011	12,900,651	3,835,000	2,696,830	6,531,830	1.98
2012	13,810,419	4,210,000	2,717,992	6,927,992	1.99

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

	<u>Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%</u>	<u>All Other General Obligation Bonds Debt Limitation 6%</u>
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
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
2012	10,031	314,471,850	31,350	56.1	1,250	9.10

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	2012			2003		
	Employees (1)	Rank	Percentage of Total City Employment	Employees (1)	Rank	Percentage of Total City Employment
Enchantment Resorts (location outside of City)	480	1	7.41%	400	2	6.68%
Sunterra Resorts	400	2	6.17	390	3	6.04
Los Abrigados	275	3	4.24	500	1	7.86
L'Auberge de Sedona Resort	220	4	3.40	225	4	3.14
Hilton Resort & Spa (Location outside of City)	195	5	3.01	185	6	2.83
Sedona/Oak Creek School District	180	6	2.78	192	5	2.20
Pink Jeep Tours	143	7	2.21			-
Sedona Rouge	110	8	1.70	114	8	1.51
City of Sedona	104	9	1.60	130	7	1.96
Radisson Resort	87	10	1.34	-		-
	<u>2,194</u>		33.86%	<u>2,136</u>		32.22%
City of Sedona	104					

Source: The Arizona Department of Commerce.

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

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

Function	Full-time Equivalent Employees									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Management Services	23	20	24	23	25	25	25	18	17	18
Finance	4	4	5	5	5	5	5	5	6	5
Planning	3	2	4	4	5	5	5	6	6	6
Building	3	2	3	3	3	3	3	2	2	2
Other	1	1	1	1	1	1	1	1	1	5
Public Safety										
Officers	25	24	25	29	31	31	30	24	24	26
Civilians	8	8	9	9	8	8	10	8	10	10
Other Public Works										
Engineering	2	2	4	5	5	5	5	4	4	4
Other	11	10	9	11	11	11	11	14	14	13
Redevelopment	7	7	8	7	7	7	7	4	4	3
Parks and Recreation	6	5	6	6	6	6	7	3	2	2
Wastewater	7	7	7	8	11	11	11	11	11	10
Total	100	92	105	111	118	118	120	100	101	104

Source: City of Sedona, Arizona

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

Function	Fiscal Years									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Government										
Building Permits Issued	660	627	607	507	573	553	537	593	463	472
Building Inspections Conducted	2,950	3,033	3,431	2,303	3,168	2,737	2,180	2,086	1,277	1,453
Police										
Physical Arrests	N/A	643	594	439	662	542	652	544	537	497
Parking Violations	10	60	65	80	87	86	40	195	149	195
Traffic Violations	815	2,266	2,750	2,475	2,296	4,589	3,772	3,310	2,617	2,268
Other Public Works										
Street Resurfacing (Miles)	2.8	0.7	1.2	1.1	2.0	4.3	3.5	-	2.4	3
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	1.1	1.1	1.1	1.1	1.3	1.2	1.1	1.1	1.2	1.117

Source: City of Sedona, Arizona

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

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	6	7	8	9	11	11	12	16	13	13
Other Public Works										
Streets (Miles)	N/A	N/A	N/A	154.5	154.5	154.5	154.5	154.4	154.4	154.4
Highways (Miles)	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Streetlights	2	2	2	2	2	2	8	8	8	8
Parks and Recreation										
Acreage	100.3	100.3	100.3	100.3	100.3	100.3	91.8 **	93.0	93	93
Playgrounds	3	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	659
Wastewater										
Sanitary Sewers (Miles)	-	-	-	156.4	159.3	75.0	75.0	75.0	75	166
Treatment Capacity (Millions of Gallons)	2.0	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2	2

Source: City of Sedona, Arizona

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

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS

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**Report on Internal Control Over Financial Reporting
 and on Compliance and Other Matters
 Based on an Audit of Financial Statements Performed
 in Accordance with *Government Auditing Standards***

The Honorable Mayor and
 City Council
 Sedona, Arizona

We have audited the basic financial statements of the City of Sedona, Arizona as of and for the year ended June 30, 2012, and have issued our report thereon dated October 18, 2012. 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.

Internal Control over Financial Reporting

Management of the City of Sedona, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sedona’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in our findings and recommendations letter dated October 18, 2012, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies described in our findings and recommendations letter dated October 18, 2012 to be material weaknesses.

- 12-1 Bank Account Reconciliations
- 11-1 Year End Accounting and Financial Statement Controls – prior year reissued

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in our findings and recommendations letter dated October 18, 2012 to be significant deficiencies.

- 11-2 Segregation of Duties – City Court – prior year reworded, reissued
- 11-3 Capital Asset Management and Accounting – prior year reissued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we have reported to the management of the City in a separate letter dated October 18, 2012.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
October 18, 2012



MEMBERS:

CHAD B. ATKINSON, CPA
KRIS J. BRAUNBERGER, CPA
DEAN R. BURDICK, CPA
ROBERT S. COX, CPA
TODD B. FELTNER, CPA
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**Independent Auditors' Report on
State Legal Compliance**

The Honorable Mayor and
City Council
Sedona, Arizona

We have audited the basic financial statements of the City of Sedona, Arizona for the year ended June 30, 2012, and have issued our report thereon dated October 18, 2012. Our audit also included test work on the City of Sedona's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Sedona is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The City of Sedona has established a separate fund to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Sedona pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, The City of Sedona complied, in all material respects, with the requirements identified above for the year ended June 30, 2012.

HintonBurdick, PLLC

HintonBurdick, PLLC
October 18, 2012

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