



**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**FISCAL YEAR ENDED  
JUNE 30, 2013**

**City of Sedona  
Arizona**

**CITY OF SEDONA, ARIZONA**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2013**

**Prepared by:**  
**Financial Services Department**

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**CITY OF SEDONA, ARIZONA**

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102 Roadrunner Drive  
Sedona, AZ 86336  
TDD (928) 204-7102  
[www.SedonaAZ.gov](http://www.SedonaAZ.gov)

October 12, 2013

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

We are pleased to submit to you the 2013 Comprehensive Annual Financial Report (CAFR) for the City of Sedona, Arizona (the City) in accordance with Arizona Revised Statutes, Section 9-481. 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 and on the City's website 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, 2013, 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, 2013, 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 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 relatively flat. This low growth will continue to present 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 limited-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, and enterprise fund, 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 2013 a successful year, and will provide for continued success in the years to come. Revenues exceeded budget estimates by approximately 5%, and were budgeted at a 3% increase for FY 2014.

### **Economic Outlook**

*Retail Sales:* The City of Sedona places a heavy reliance on City-collected sales tax and the economy is heavily driven by tourism and the generation of sales taxes from tourism related activities and sales of high end commodities such as art pieces and jewelry. Overall, sales tax revenues comprise approximately 54% 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 1.8% to the General Fund and 1.2% 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. Sales tax revenues are expected to increase slightly over the next several years, but at a slower pace than the growth being seen state-wide.

*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 demands for 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. Since revenues have increased modestly, several items that were the target of budget balancing strategies in prior years were re-instated. In order to remain competitive with the workforce in surrounding communities, the following staffing, wage and benefits changes were implemented:

- > A one-time compensatory award to be paid at the rate of \$100 per quarter for up to 15 quarters
- > 3% merit increase beginning in January 2013 based on a satisfactory performance review and realization of continuing modest increases in revenues
- > Addition of 2.75 FTE

### Financial Policies

In addition to the budget balancing strategies, forward looking revenue projections are conservatively estimated anticipating impacts to construction and tourism related revenues. The five-year forecast is updated annually for revenues and expenses for the City's major funds. The forecasts are prepared to examine the City's ability to absorb operating costs due to changes in the economy, service demands, and capital improvements. The forecast includes revenue that is reasonably considered to be sustainable over at least a five year period. Expenditure projections include anticipated operating impacts of capital improvement expenditures that are included in the ten-year Capital Improvement Program. This long-range process serves to define the critical issues and priorities and incorporates the City's Community Plan and long term vision.

These strategies have allowed the City to maintain its strong operating cash position and increase its reserve to budget ratio to 110%. Now that the economy is recovering, fund balances will be spent down to upper limit policy levels of 75% over the next few years to support the accelerated street maintenance program and capital projects.

### **Major Initiatives And Service Efforts And Accomplishments For the Year**

During fiscal year 2013, 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 2013:

#### Police

- > Completed the Federal Communications Requirement to convert existing wideband radio system to a narrowband operation.
- > Implemented Community Service Aide program designed to enhance parking enforcement and traffic safety activities in the Uptown area.
- > Created police department recruitment team to enhance police officer recruiting activities.

- > Re-implemented the School Resource Officer Program through an equal cost sharing agreement with the Sedona-Oak Creek School District.
- > Enhanced police officer special assignment opportunities through reimbursed cost participation on a newly formed Yavapai County Regional Gang Task Force.

### Public Works

- > Completed energy efficiency audit.
- > Completed Harmony-Windsong Phase 3 construction.
- > Completed design of Harmony-Windsong Phase 4 improvements.
- > Completed improvements at Posse Grounds multi-use field and parking lot improvements.
- > Worked with ADOT to complete overlay and lighting project along SR 89A.
- > Installed 9 new dog waste stations.
- > Designed recreation related improvements at Sedona Wetlands.

### Management Services

- > Entered into a service contract with the YMCA to take over operations of the Sedona Teen Center.
- > Expanded the City's small grant award program to provide \$150,000 worth of grants to local non-profits for Arts and Culture, Community Building, and Economic Stimulation activities.
- > Implemented enhanced communications strategies including the production of a 2012 Annual Community Report, community newsletter, Council Coffee Chats, and website enhancements.
- > Began producing a quarterly capital improvement program status update report.
- > Began updating the City's Development Impact Fee Study.
- > Reduced unemployment costs over the past three years.
- > Implemented and expanded online recruitment processes.
- > Streamlined and reduced time for employees during Open Enrollment Insurance process.
- > Organized and presented Employee Wellness Fair at City Hall.
- > Creation and implementation of a Collections Department for collection efforts with delinquent wastewater and TPT tax customers.
- > Expanded the City's business license program to include all business types.
- > Completed implementation of Springbrook Enterprise Resource Planning software.
- > Completed major upgrade of Police Department CAD/Records systems.
- > Completed implementation of two-way data sharing with Verde Valley Law Enforcement agencies
- > Converted City Council Packets to iPads for City Council and key staff members

## Community Development

- > Approximately \$109,000 of Community Development Block Grant (CDBG) funds were used to rehab seven owner-occupied, income qualified residences.
- > Utilizing volunteer assistance, an outdoor lighting inventory of commercial properties, was completed in west Sedona along SR89A, Uptown Sedona and along SR179.
- > City Council adopted a “Housing Development Area” map which allows for the City to use public funds for the purpose of maintaining, preserving and creating affordable housing in Sedona.
- > Department staff instituted SB1598 requirements, establishing review timeframes and inspection

## Parks & Recreation

- > Received the Arizona Parks and Recreation Association Award
- > Initiated Military Service Park inscription application process
- > Completed Posse Grounds Multi-Use Field renovation
- > Recruited Diamond Resorts as a primary City Event Sponsor
- > Worked with the YMCA on the operations of the Teen Center
- > Held the Grand Opening at Sedona Wetlands Preserve

## Wastewater

- > The Plant Capacity Upgrades project was completed identifying process and design improvements that will be required for meeting future treatment needs.
- > The Injection Well project was started to evaluate this methodology as a potential long-term addition for disposal of treated effluent.
- > Back O’ Beyond pump station project was started adding consistency and reliability to the collections system.
- > Purchased a portable CCTV camera to aid the collections group in meeting preventative maintenance sewer line inspection, cleaning and videoing goals.
- > Rehabilitated Clarifier #1 to ensure operational functionality and structural longevity.

## **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 July 2012, the City Council identified a two-year set of twenty-five priorities. In FY 2013, City Council and staff completed eight of the priorities which include:

- > Implementation of a new collections program to insure the accurate and timely remittance of taxes and wastewater fees
- > Completion of the first phase of improvements to parking and traffic management in Uptown
- > Production of a new annual community report and annual newsletter
- > Review of grant funding process
- > Improve financial reporting through standardization of various financial reports
- > Develop a mission statement for the government
- > Bicycle, pedestrian and vehicular safety on SR89A

All Councilors agreed to continue to support these existing priorities.

### **Awards and Acknowledgments**

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, 2012. This was the 14<sup>th</sup> 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, whose contents must conform to program standards. This 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.

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.

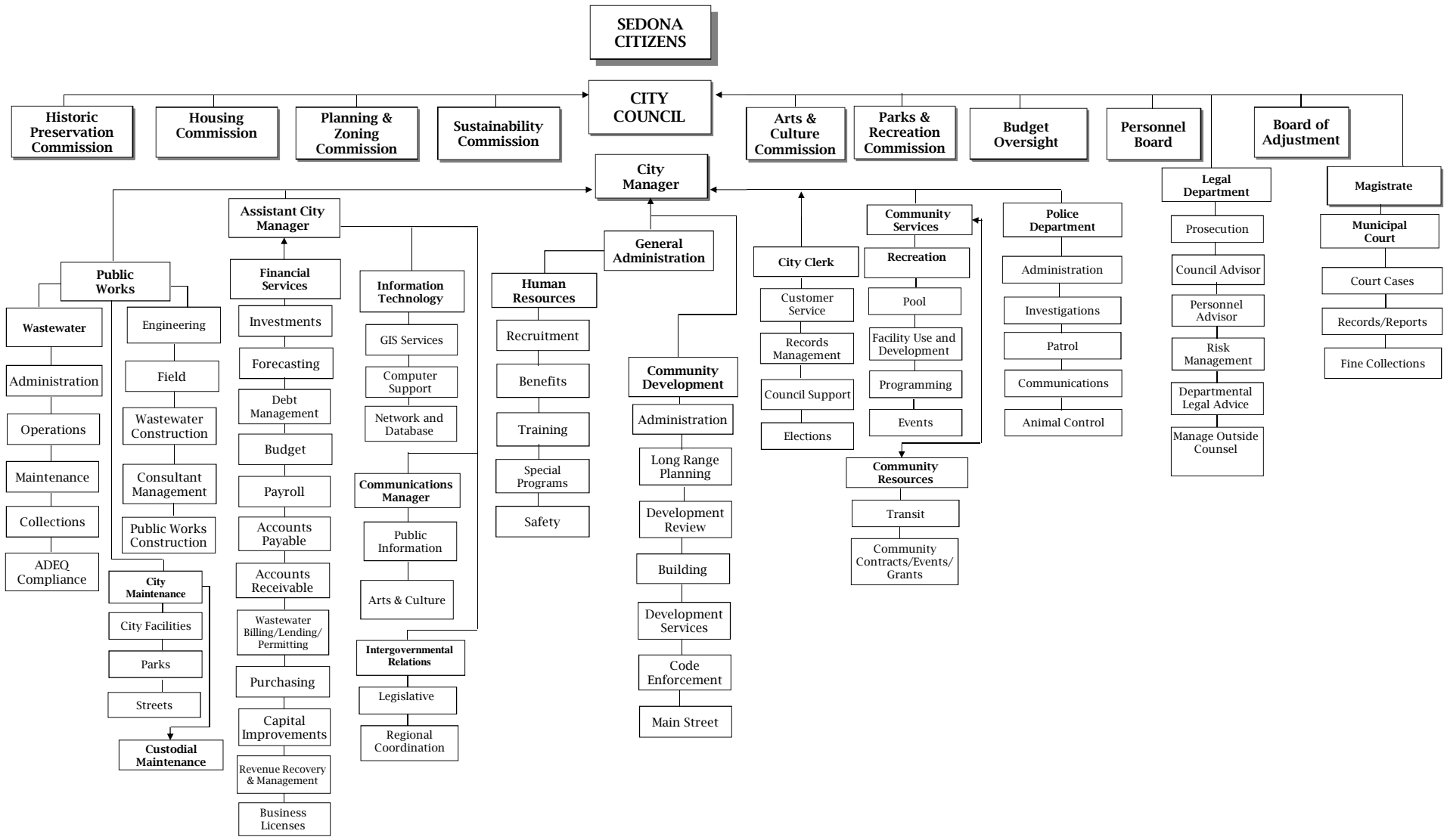
Sincerely,



Tim Ernster  
City Manager



Karen Daines  
Assistant City Manager



**CITY OF SEDONA, ARIZONA**

**List of Elected and Appointed Officials**

**June 30, 2013**

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*



Government Finance Officers Association

**Certificate of  
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for Excellence  
in Financial  
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Presented to

**City of Sedona  
Arizona**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2012**

Executive Director/CEO



**FINANCIAL SECTION**

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MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

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## Independent Auditors' Report

The Honorable Mayor and  
City Council  
Sedona, Arizona

### Report on the Financial Statements

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 City of Sedona, Arizona, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Sedona, Arizona, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund and Highway User Revenue Special Revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matter*

As described in Note 1 to the financial statements, in 2013, the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-11, and the public safety retirement system information on pages 48 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.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sedona, Arizona's basic financial statements. The introductory section, supplementary budget and actual schedules, combining nonmajor fund financial statements, nonmajor fund budget and actual schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary budget and actual schedules, combining nonmajor fund financial statements, and nonmajor fund budget and actual schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary budget and actual schedules, combining nonmajor fund financial statements, and nonmajor fund budget and actual schedules are fairly stated in all material respects in relation to the basic 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2013, on our consideration of the City of Sedona, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Sedona, Arizona's internal control over financial reporting and compliance.



HintonBurdick, PLLC

Flagstaff, Arizona

October 12, 2013

**CITY OF SEDONA, ARIZONA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended June 30, 2013**

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, 2013. 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 14 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 \$109,207,602. This amount is comprised of \$73,714,087 in net investment in capital assets, \$10,514,851 of restricted net position and \$24,978,664 in unrestricted net position.
- Governmental net position decreased by \$1,124,647 and Business-Type net position increased by \$1,304,085.
- Total City Sales tax revenue increased over last year by 14% and still is the single largest revenue in the budget.
- Improvements totaling \$3.2 million were spent for the City's various park improvements, infrastructure and other capital asset purchases for the City's governmental activities.
- Total debt service payments were approximately \$5.4 million leaving \$50.8 million in total outstanding debt at the close of the year.
- The General Fund's unassigned fund balance increased by \$1,511,838 to \$14,295,776. The unassigned fund balance represents 126% of total General Fund expenditures for the fiscal year.
- The Capital Improvement fund balance decreased by \$2,040,806 to a total fund balance of \$5,903,143 all restricted for capital outlay.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – management's discussion and analysis (this portion); the basic financial statements; required supplementary information; and optional combining statements for non-major governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

- The government-wide financial statements provide both long-term and short-term information about the City's overall financial status.
- Fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  - Governmental fund statements tell how general government services such as police and public works were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short-term and long-term financial information about the activities the City operates like businesses, such as wastewater services.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

## Government-wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the City's assets and liabilities. All of the current year's revenues and expenses are reported in the Statement of Activities 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.

The government wide financial statements can be found on pages 14-15 of this report.

## Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds. Fund financial statements provide more detailed information about the City's largest funds, not the City as a whole.

- Governmental funds – Most of the City's basic services are included in governmental funds, and report essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining yearend balances available for spending.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their purpose (special revenue, capital projects) presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Highway User Revenue Fund (HURF), and Capital Improvement Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated

presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in a separate section in this report.

The City adopts an annual appropriated budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and Highway User Revenue Fund as part of the basic financial statements to demonstrate compliance with this budget. Budgetary comparisons for all other governmental funds are provided in the combining and individual fund statements and schedules.

The basic governmental fund financial statements can be found on pages 16-22 of this report.

- Proprietary funds – Services for which the City charges customers a fee generally are reported in proprietary funds. Proprietary fund financial statements, like the government-wide statements, provide both short-term and long-term financial information. The City’s proprietary fund is an enterprise fund, which is used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. The City uses an enterprise fund to account for its wastewater operations.

The basic proprietary fund financial statements can be found on pages 23-25.

#### Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-46.

#### Required supplementary information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its public safety employees. Required supplementary information can be found on page 48.

## 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, 2013 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	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Current and other assets	\$ 27,443,861	\$ 28,278,997	\$ 18,584,798	\$ 18,119,964	\$ 46,028,659	\$ 46,398,961
Capital assets	28,890,721	28,492,534	96,770,935	98,763,364	125,661,656	127,255,898
Total assets	<u>56,334,582</u>	<u>56,771,531</u>	<u>115,355,733</u>	<u>116,883,328</u>	<u>171,690,315</u>	<u>173,654,859</u>
Total deferred outflows of resources	280,896	328,148	813,423	948,994	1,094,319	1,277,142
Long-term liabilities outstanding	11,502,210	11,883,063	48,809,083	46,009,337	60,311,293	57,892,400
Other liabilities	1,966,786	945,487	1,298,953	7,065,950	3,265,739	8,011,437
Total liabilities	<u>13,468,996</u>	<u>12,828,550</u>	<u>50,108,036</u>	<u>53,075,287</u>	<u>63,577,032</u>	<u>65,903,837</u>
Net position:						
Net investment in capital assets	18,019,228	17,287,440	55,694,859	53,703,021	73,714,087	70,990,461
Restricted	10,514,851	9,015,587	-	-	10,514,851	9,015,587
Unrestricted	14,612,403	17,968,102	10,366,261	11,054,014	24,978,664	29,022,116
Total net position	<u>\$ 43,146,482</u>	<u>\$ 44,271,129</u>	<u>\$ 66,061,120</u>	<u>\$ 64,757,035</u>	<u>\$ 109,207,602</u>	<u>\$ 109,028,164</u>

The City has \$171,690,315 in total assets, \$1,094,319 in deferred outflows of resources, with \$125,661,656 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.



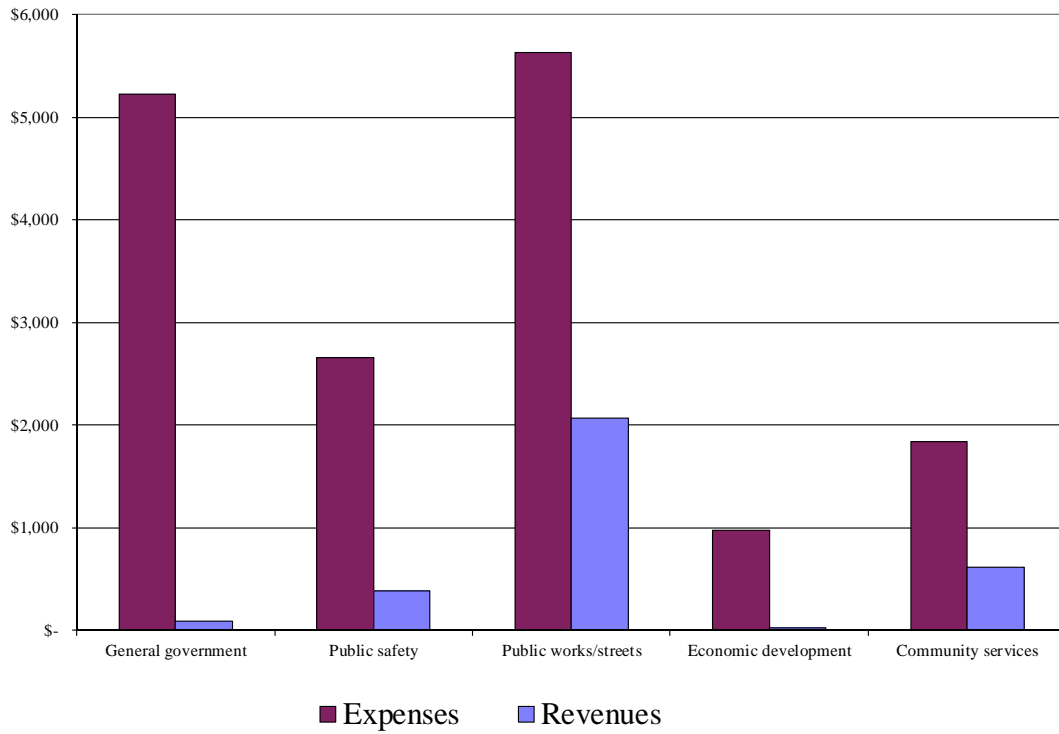
**City of Sedona**  
**Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Revenues:						
Program revenues:						
Charges for services	\$ 413,843	\$ 584,272	\$ 5,884,685	\$ 5,159,442	\$ 6,298,528	\$ 5,743,714
Operating grants and contributions	1,970,762	1,776,788	-	-	1,970,762	1,776,788
Capital grants and contributions	779,462	688,239	-	-	779,462	688,239
General revenues:						
Taxes	11,541,821	10,083,593	4,638,664	5,002,648	16,180,485	15,086,241
State revenue sharing	1,024,645	846,624	-	-	1,024,645	846,624
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Investment earnings	127,098	215,593	111,930	208,284	239,028	423,877
Other revenue/(expense)	64,367	37,116	-	-	64,367	37,116
Total revenues	<u>15,921,998</u>	<u>14,232,225</u>	<u>10,635,279</u>	<u>10,370,374</u>	<u>26,557,277</u>	<u>24,602,599</u>
Expenses:						
General government	5,231,759	4,777,974	-	-	5,231,759	4,777,974
Public safety	2,654,768	2,486,555	-	-	2,654,768	2,486,555
Public works/Streets	5,635,022	3,204,078	-	-	5,635,022	3,204,078
Economic development	1,834,854	2,004,255	-	-	1,834,854	2,004,255
Community services	974,564	824,582	-	-	974,564	824,582
Interest on long-term debt	559,672	567,901	-	-	559,672	567,901
Wastewater	-	-	8,090,104	7,618,960	8,090,104	7,618,960
Total expenses	<u>16,890,639</u>	<u>13,865,345</u>	<u>8,090,104</u>	<u>7,618,960</u>	<u>24,980,743</u>	<u>21,484,305</u>
Increase (Decrease) in net position before transfers	(968,641)	366,880	2,545,175	2,751,414	1,576,534	3,118,294
Transfers	63,842	-	(63,842)	-	-	-
Increase (Decrease) in net position	(904,799)	366,880	2,481,333	2,751,414	1,576,534	3,118,294
Net position, beginning	44,271,129	43,904,249	64,757,035	62,005,621	109,028,164	105,909,870
Restatement/Prior period adjustment	(219,848)	-	(1,177,248)	-	(1,397,096)	-
Net position, ending	<u>\$ 43,146,482</u>	<u>\$ 44,271,129</u>	<u>\$ 66,061,120</u>	<u>\$ 64,757,035</u>	<u>\$ 109,207,602</u>	<u>\$ 109,028,164</u>

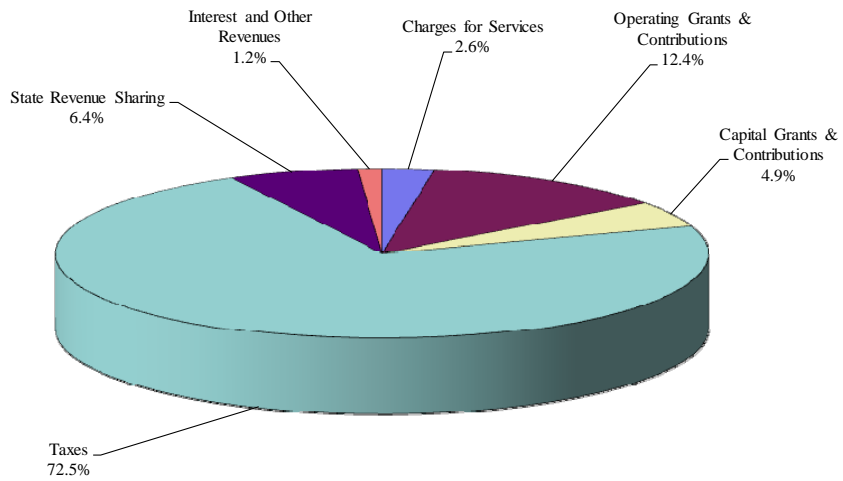
Total resources available during the year to finance governmental operations were \$60.3 million consisting of Net position at July 1, 2012 of \$44.3 million, program revenues of \$3.2 million and General Revenues of \$12.8 million. Total Governmental Activities during the year were \$16.9 million combined with a negative restatement adjustment of \$219,848; thus Governmental Net Position was decreased by \$1,124,647 to \$43.1 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)**

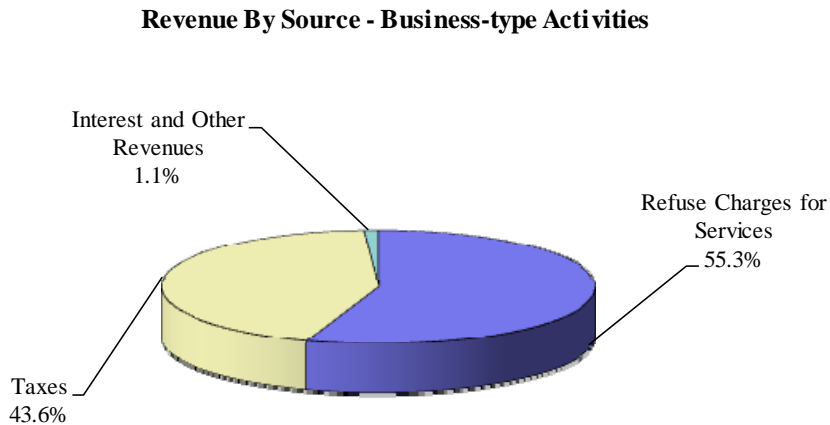
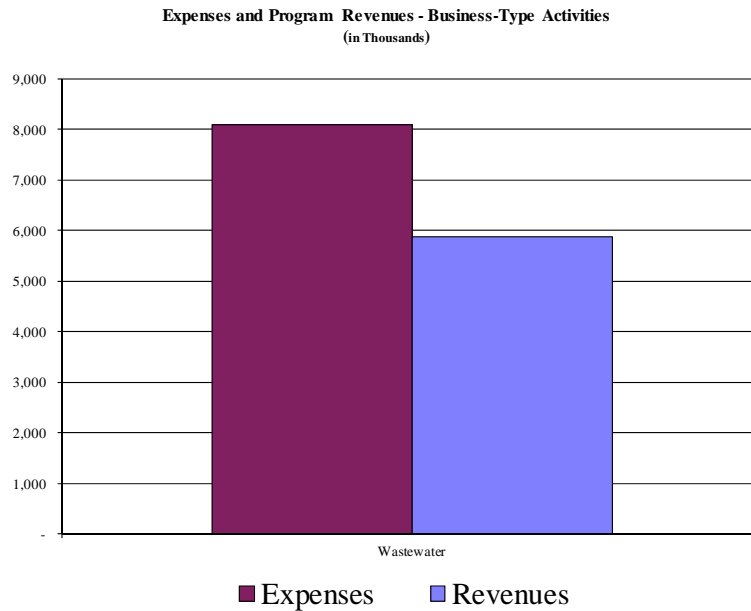


**Revenue By Source - Governmental Activities**



## Business Type Activities

Net position of the Business Type activities at June 30, 2013, as reflected in the Statement of Net Position was \$66.1 million. The cost of providing all Proprietary (Business Type) activities this year was \$8.1 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$5.5 million and there was \$4.6 million subsidized by sales tax revenues. Interest earnings and other revenues were \$541,785. Prior period adjustments and restatement of adjustment were negative \$336,869 and \$840,379, respectively. The Net Position increased by \$1,304,085.



## **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 \$24.9 million, a decrease of \$1.4 million in comparison with the prior year. Approximately, 57% of this total amount or \$14.3 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 \$14,295,776 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 123% of total general fund expenditures.

During the year, the City of Sedona's general fund balance increased by \$1.5 million primarily due to various costs savings throughout all line-items of the operating budget expenditures and realized revenues higher than budgeted.

The Highway User Revenue Fund has a total fund balance of \$0, all of which is restricted for road and street construction and improvements. The net decrease in the fund balance during the current year was \$1,213,017 due to planned appropriations of fund balance for road work.

The Capital Improvement fund balance decreased by \$2.0 million primarily due to various capital expenditures related to drainage projects and land acquisition for a public works maintenance facility.

The Wastewater fund experienced a \$1,304,085 increase in net position for 2013 primarily due to increased monthly service fees, planned allocation of sales tax receipts and recognition of restatement due to implementation of GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*, and recognition of a prior-period adjustment to correct accrued 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 \$13,148,715, on a budgetary basis, were more than the budget of \$12,383,809 by \$764,906. The variance in budget to actual numbers related to revenues was the result of more than anticipated sales and bed tax receipts. Budgetary expenditures of \$11,335,434 were 92% of budgeted expenditures of \$12,281,082, a savings of \$945,648. The variance in budget to actual numbers related to expenditures were the result of staff attrition 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 2013, net capital assets of the government activities totaled \$28.89 million and the net capital assets of the business-type activities totaled \$96.77 million. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See note 6 to the financial statements.)

### **Debt**

At year-end, the City had \$10.97 million in governmental type debt, and \$39.9 million in business-type debt. The debt is a liability of the government and amounts to \$5,098 per capita. The City's total debt decreased by \$4.5 million as a result of regularly scheduled debt service payments. (See note 7 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 between 50% and 75% 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 2013-14 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue at \$13,822,076 (including HURF fund expense transfer). This means that the general fund reserves are at approximately 103%. The adopted fiscal year 2013-14 budget is \$36,145,299, which includes capital projects of \$7.4 million. The budget for fiscal year 2013-14 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.
- Transfer of business licensing program to the City from the third party administrator, Revenue Discovery Systems.
- Continued drainage improvements in the Harmony and Windsong drives areas as well as the Industrial Park, as per the City's Storm Drainage Master Plan.
- Acquisition of land for a park as well as continued improvements to Sunset Park and Barbara Antonsen Park.
- Additional personnel as well as COLA and market adjustments for existing personnel
- Continue the design and construction for effluent management improvements at the Wastewater Treatment Plant.
- Completion of Public Works Maintenance Yard
- Continue strategies to improve traffic circulation based on completed studies.
- Complete a Development Impact Fee Study.
- Complete a Wastewater Rate Study update.

## **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](http://www.SedonaAZ.gov/finance).

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**BASIC FINANCIAL STATEMENTS**

**CITY OF SEDONA, ARIZONA**  
**Statement of Net Position**  
**June 30, 2013**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,568,576	\$ 17,857,229	\$ 42,425,805
Receivables (net of allowance)	2,875,285	704,864	3,580,149
Temporarily restricted assets:			
Cash and cash equivalents	-	22,705	22,705
Capital assets (net of accumulated depreciation):			
Land	7,586,054	11,159,413	18,745,467
Construction in progress	958,462	567,096	1,525,558
Buildings	4,245,911	-	4,245,911
Improvements	4,677,577	-	4,677,577
System improvements	-	84,786,850	84,786,850
Machinery, equipment and vehicles	931,129	257,576	1,188,705
Infrastructure/Roads	10,491,588	-	10,491,588
Total assets	<u>56,334,582</u>	<u>115,355,733</u>	<u>171,690,315</u>
<b>Deferred Outflows of Resources</b>			
Deferred charge on refunding	<u>280,896</u>	<u>813,423</u>	<u>1,094,319</u>
Total deferred outflows of resources	<u>280,896</u>	<u>813,423</u>	<u>1,094,319</u>
<b>Liabilities</b>			
Accounts payable and other current liabilities	1,443,664	453,915	1,897,579
Customer deposits	-	22,705	22,705
Unearned revenue	523,122	822,333	1,345,455
Noncurrent liabilities:			
Interest payable	-	6,919,584	6,919,584
Due within one year	619,741	4,075,000	4,694,741
Due in more than one year	10,882,469	37,814,499	48,696,968
Total liabilities	<u>13,468,996</u>	<u>50,108,036</u>	<u>63,577,032</u>
<b>Net Position</b>			
Net investment in capital assets	18,019,228	55,694,859	73,714,087
Restricted for:			
Highways and streets	-	-	-
Capital outlay	9,448,061	-	9,448,061
Public safety	159,832	-	159,832
Community services	906,958	-	906,958
Unrestricted	<u>14,612,403</u>	<u>10,366,261</u>	<u>24,978,664</u>
Total net position	<u>\$ 43,146,482</u>	<u>\$ 66,061,120</u>	<u>\$ 109,207,602</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, 2013**

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
<b>Governmental activities:</b>							
General government	\$ 5,231,759	\$ 78,355	\$ 5,175	\$ -	\$ (5,148,229)	\$ -	\$ (5,148,229)
Public safety	2,654,768	154,786	223,544	874	(2,275,564)	-	(2,275,564)
Public works/streets	5,635,022	90,065	1,731,640	249,025	(3,564,292)	-	(3,564,292)
Economic development	974,564	22,270	-	-	(952,294)	-	(952,294)
Community services	1,834,854	68,367	10,403	529,563	(1,226,521)	-	(1,226,521)
Interest on long-term debt	559,672	-	-	-	(559,672)	-	(559,672)
Total governmental activities	<u>16,890,639</u>	<u>413,843</u>	<u>1,970,762</u>	<u>779,462</u>	<u>(13,726,572)</u>	<u>-</u>	<u>(13,726,572)</u>
<b>Business-type activities:</b>							
Wastewater	8,090,104	5,884,685	-	-	-	(2,205,419)	(2,205,419)
Total business-type activities	<u>8,090,104</u>	<u>5,884,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,205,419)</u>	<u>(2,205,419)</u>
Total primary government	<u>\$ 24,980,743</u>	<u>\$ 6,298,528</u>	<u>\$ 1,970,762</u>	<u>\$ 779,462</u>			
General Revenues:							
Taxes:							
Sales tax					8,824,918	4,638,664	13,463,582
Franchise tax					720,455	-	720,455
Auto fee in lieu tax (unrestricted)					483,343	-	483,343
Bed tax fee in lieu (unrestricted)					692,049	-	692,049
State sales tax (unrestricted)					821,056	-	821,056
State sales taxes - revenue sharing (unrestricted)					1,024,645	-	1,024,645
Unrestricted investment earnings					127,098	111,930	239,028
Gain on sale of capital assets					7,222	-	7,222
Other					57,145	-	57,145
Transfers					63,842	(63,842)	-
Total general revenues & transfers					<u>12,821,773</u>	<u>4,686,752</u>	<u>17,508,525</u>
Change in net position					(904,799)	2,481,333	1,576,534
Net position - beginning					44,271,129	64,757,035	109,028,164
Prior period adjustment					-	(336,869)	(336,869)
Restatement adjustment					(219,848)	(840,379)	(1,060,227)
Net position - ending					<u>\$ 43,146,482</u>	<u>\$ 66,061,120</u>	<u>\$ 109,207,602</u>

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

**CITY OF SEDONA, ARIZONA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2013**

	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 13,116,261	\$ 515,393	\$ 6,133,169	\$ 4,803,753	\$ 24,568,576
Receivables:					
Taxes	-	-	-	124,726	124,726
Other	852,038	-	-	-	852,038
Intergovernmental	1,524,703	73,026	109,347	191,445	1,898,521
<b>Total assets</b>	<b>\$ 15,493,002</b>	<b>\$ 588,419</b>	<b>\$ 6,242,516</b>	<b>\$ 5,119,924</b>	<b>\$ 27,443,861</b>
<b>Liabilities</b>					
Accounts payable	\$ 235,773	\$ 588,419	\$ 235,010	\$ 155,341	\$ 1,214,543
Accrued wages and benefits	229,121	-	-	-	229,121
Unearned revenue	173,585	-	104,363	245,174	523,122
<b>Total liabilities</b>	<b>638,479</b>	<b>588,419</b>	<b>339,373</b>	<b>400,515</b>	<b>1,966,786</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - taxes	558,747	-	-	60,641	619,388
<b>Total deferred inflows of resources</b>	<b>558,747</b>	<b>-</b>	<b>-</b>	<b>60,641</b>	<b>619,388</b>
<b>Fund Balances</b>					
Restricted for:					
Public safety	-	-	-	159,832	159,832
Public works/streets	-	-	-	-	-
Community services	-	-	-	906,958	906,958
Capital outlay	-	-	5,903,143	3,544,918	9,448,061
Committed to:					
Community services	-	-	-	47,060	47,060
Unassigned	14,295,776	-	-	-	14,295,776
<b>Total fund balances</b>	<b>14,295,776</b>	<b>-</b>	<b>5,903,143</b>	<b>4,658,768</b>	<b>24,857,687</b>
<b>Total liabilities, deferred inflows of of resources, and fund balances</b>	<b>\$ 15,493,002</b>	<b>\$ 588,419</b>	<b>\$ 6,242,516</b>	<b>\$ 5,119,924</b>	<b>\$ 27,443,861</b>

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, 2013**

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Total governmental fund balances	\$	24,857,687
<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	\$ 48,015,011	
Less accumulated depreciation	<u>(19,124,290)</u>	28,890,721
<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	\$ (10,970,000)	
Deferred amount on refunding	280,896	
Deferred amount of premium	(165,500)	
Capital leases	(16,889)	
Compensated absences	<u>(349,821)</u>	(11,221,314)
<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>619,388</u>
Total net position of governmental activities	\$	<u><u>43,146,482</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, 2013**

<b>REVENUES</b>	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 9,577,768	\$ -	\$ -	\$ 179,081	\$ 9,756,849
Licenses, permits and fees	334,756	-	-	-	334,756
Intergovernmental revenue	2,749,728	756,569	930,444	388,363	4,825,104
Contributions/donations	5,175	-	-	46,770	51,945
Charges for services	89,118	-	-	-	89,118
Fines and forfeitures	154,786	-	-	-	154,786
Impact fees	-	-	-	278,480	278,480
Interest	65,399	14,572	47,127	12,756	139,854
Other revenues	171,985	-	342,525	6,843	521,353
Total revenues	<u>13,148,715</u>	<u>771,141</u>	<u>1,320,096</u>	<u>912,293</u>	<u>16,152,245</u>
<b>EXPENDITURES</b>					
Current:					
General government	4,406,774	-	-	258,019	4,664,793
Public safety	2,526,161	-	-	196,874	2,723,035
Public works/Streets	1,032,455	2,282,501	-	18,021	3,332,977
Economic development	726,812	-	-	247,752	974,564
Community services	1,749,959	-	-	53,556	1,803,515
Capital outlay	-	-	3,156,958	73,312	3,230,270
Debt service:					
Principal	354,309	-	-	-	354,309
Interest and fiscal charges	538,964	-	-	-	538,964
Total expenditures	<u>11,335,434</u>	<u>2,282,501</u>	<u>3,156,958</u>	<u>847,534</u>	<u>17,622,427</u>
Excess of revenues					
Over (Under) Expenditures	<u>1,813,281</u>	<u>(1,511,360)</u>	<u>(1,836,862)</u>	<u>64,759</u>	<u>(1,470,182)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers out	(439,116)	-	(344,717)	(10,000)	(793,833)
Transfers in	137,673	298,343	140,773	280,886	857,675
Total other financing Sources (Uses)	<u>(301,443)</u>	<u>298,343</u>	<u>(203,944)</u>	<u>270,886</u>	<u>63,842</u>
Net change in fund balances	1,511,838	(1,213,017)	(2,040,806)	335,645	(1,406,340)
Fund balances, beginning of year	12,783,938	1,213,017	7,943,949	4,323,123	26,264,027
Fund balances, end of year	<u>\$ 14,295,776</u>	<u>\$ -</u>	<u>\$ 5,903,143</u>	<u>\$ 4,658,768</u>	<u>\$ 24,857,687</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, 2013**

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

Net change in fund balances - total governmental funds		\$ (1,406,340)
<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 difference between depreciation expense and capital outlay in the current period.</p>		
Capital outlay		\$ 4,486,413
Depreciation expense		<u>(3,757,899)</u>
		728,514
The net effect of various transactions involving capital assets (i.e., sales and donations) is to decrease net position.		(330,327)
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.		(230,247)
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.		354,309
<p>Governmental funds report the effect of 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 deferred amounts on refunding		(47,252)
Amortization of bond premium		<u>26,544</u>
Change in net position of governmental activities		<u>\$ (904,799)</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, 2013**

<b>Revenues</b>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Taxes:</b>				
City sales tax	\$ 6,611,886	\$ 6,611,886	\$ 6,848,488	\$ 236,602
Bed tax	1,240,249	1,240,249	1,857,455	617,206
Recovery of sales taxes - audit	90,000	90,000	151,370	61,370
Franchise taxes	684,084	684,084	720,455	36,371
Total taxes	<u>8,626,219</u>	<u>8,626,219</u>	<u>9,577,768</u>	<u>951,549</u>
Licenses and permits	268,158	268,158	334,756	66,598
<b>Intergovernmental revenues:</b>				
State sales tax	838,795	838,795	821,056	(17,739)
Auto lieu tax	521,246	521,246	483,343	(37,903)
Urban revenue sharing	1,024,552	1,024,552	1,024,645	93
Fee-in lieu taxes	300,000	300,000	391,344	91,344
Grant revenues	-	-	29,340	29,340
Total intergovernmental	<u>2,684,593</u>	<u>2,684,593</u>	<u>2,749,728</u>	<u>65,135</u>
Contributions/donations	5,000	5,000	5,175	175
<b>Charges for services:</b>				
Parks and recreation	68,000	68,000	68,367	367
Police	92,000	92,000	20,751	(71,249)
Total charges for services	<u>160,000</u>	<u>160,000</u>	<u>89,118</u>	<u>(70,882)</u>
Fines and forfeitures	250,840	250,840	154,786	(96,054)
Interest earnings	201,114	201,114	65,399	(135,715)
<b>Other revenues:</b>				
Tax audits - interest/penalty	47,995	47,995	57,145	9,150
Miscellaneous revenues	139,890	139,890	114,840	(25,050)
Total other revenues	<u>187,885</u>	<u>187,885</u>	<u>171,985</u>	<u>(15,900)</u>
Total revenues	<u>12,383,809</u>	<u>12,383,809</u>	<u>13,148,715</u>	<u>764,906</u>
<b>Expenditures</b>				
<b>Current:</b>				
<b>General government:</b>				
City council	66,911	66,911	60,394	6,517
City manager	604,271	604,271	625,293	(21,022)
Human resources	1,900,807	1,900,807	1,717,710	183,097
Financial services	373,636	373,636	430,905	(57,269)
Information technology	570,605	570,605	569,009	1,596
Legal	369,093	369,093	358,529	10,564
General services	909,735	909,735	644,934	264,801
Total general government	<u>4,795,058</u>	<u>4,795,058</u>	<u>4,406,774</u>	<u>388,284</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 (Continued)**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Public safety:</b>				
Police	2,350,243	2,350,243	2,301,878	48,365
Municipal court	295,859	295,859	224,283	71,576
Total public safety	<u>2,646,102</u>	<u>2,646,102</u>	<u>2,526,161</u>	<u>119,941</u>
<b>Public works:</b>				
Public works	1,134,771	1,134,771	1,032,455	102,316
Total public works	<u>1,134,771</u>	<u>1,134,771</u>	<u>1,032,455</u>	<u>102,316</u>
<b>Economic development:</b>				
Community development	882,811	882,811	726,812	155,999
Total economic development	<u>882,811</u>	<u>882,811</u>	<u>726,812</u>	<u>155,999</u>
<b>Community services:</b>				
Parks and recreation	1,933,074	1,933,074	1,748,916	184,158
Community services	-	-	1,043	(1,043)
Total community services	<u>1,933,074</u>	<u>1,933,074</u>	<u>1,749,959</u>	<u>183,115</u>
Debt service:				
Principal	354,309	354,309	354,309	-
Interest	534,957	534,957	538,964	(4,007)
Total expenditures	<u>12,281,082</u>	<u>12,281,082</u>	<u>11,335,434</u>	<u>945,648</u>
Excess of revenues over expenditures	<u>102,727</u>	<u>102,727</u>	<u>1,813,281</u>	<u>1,710,554</u>
<b>Other financing sources (uses)</b>				
Transfers out	(2,092,577)	(2,092,577)	(439,116)	1,653,461
Transfers in	158,312	158,312	137,673	(20,639)
Total other financing sources and (uses)	<u>(1,934,265)</u>	<u>(1,934,265)</u>	<u>(301,443)</u>	<u>1,632,822</u>
<b>Net change in fund balance</b>	(1,831,538)	(1,831,538)	1,511,838	3,343,376
Fund balance - beginning	<u>12,783,938</u>	<u>12,783,938</u>	<u>12,783,938</u>	<u>-</u>
Fund balance - ending	<u>\$ 10,952,400</u>	<u>\$ 10,952,400</u>	<u>\$ 14,295,776</u>	<u>\$ 3,343,376</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenue	\$ 677,258	\$ 677,258	\$ 756,569	\$ 79,311
Interest	17,500	17,500	14,572	(2,928)
Total revenues	<u>694,758</u>	<u>694,758</u>	<u>771,141</u>	<u>76,383</u>
<b>EXPENDITURES</b>				
Public works/Streets:				
Salaries, wages and benefits	296,950	296,950	284,057	12,893
Services, supplies and other	<u>2,279,247</u>	<u>2,279,247</u>	<u>1,998,444</u>	<u>280,803</u>
Total expenditures	<u>2,576,197</u>	<u>2,576,197</u>	<u>2,282,501</u>	<u>293,696</u>
Excess of revenues				
Over (Under) expenditures	<u>(1,881,439)</u>	<u>(1,881,439)</u>	<u>(1,511,360)</u>	<u>370,079</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>1,231,768</u>	<u>1,231,768</u>	<u>298,343</u>	<u>(933,425)</u>
Total other financing Sources (Uses)	<u>1,231,768</u>	<u>1,231,768</u>	<u>298,343</u>	<u>(933,425)</u>
Net change in fund balance	(649,671)	(649,671)	(1,213,017)	(563,346)
Fund balance, beginning of year	<u>1,213,017</u>	<u>1,213,017</u>	<u>1,213,017</u>	<u>-</u>
Fund balance, end of year	<u>\$ 563,346</u>	<u>\$ 563,346</u>	<u>\$ -</u>	<u>\$ (563,346)</u>

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



**CITY OF SEDONA, ARIZONA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2013**

	Business-Type Activities Wastewater Enterprise Fund
<b>Assets</b>	
Current Assets:	
Cash	\$ 17,857,229
Receivables (net of allowance)	
Accounts receivable	704,864
Restricted cash	22,705
Total current assets	18,584,798
Noncurrent Assets:	
Deferred charges	-
Capital Assets (net of depreciation):	
Land	11,159,413
Construction in progress	567,096
Wastewater system	84,786,850
Machinery, equipment and vehicles	257,576
Total capital assets	96,770,935
Total noncurrent assets	96,770,935
<b>Total Assets</b>	115,355,733
 <b>Deferred Outflows of Resources</b>	
Deferred charge on refunding	813,423
Total deferred outflows of resources	813,423
 <b>Liabilities</b>	
Current liabilities:	
Accounts payable	392,190
Compensated absences	61,725
Utility deposits	22,705
Unearned revenue	822,333
Bonds payable - current portion	4,075,000
Total current liabilities	5,373,953
Noncurrent liabilities:	
Interest payable	6,919,584
Bonds payable, net of current portion	37,814,499
Total noncurrent liabilities	44,734,083
<b>Total liabilities</b>	50,108,036
 <b>Net Position</b>	
Net investment in capital assets	55,694,859
Unrestricted	10,366,261
<b>Total net position</b>	\$ 66,061,120

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, 2013**

	Business-Type Activities Wastewater Enterprise Fund
<b>Operating Revenues</b>	
Charges for services	\$ 5,455,830
Other income	36,490
Total operating revenues	5,492,320
<b>Operating Expenses</b>	
Wastewater Administration:	
Salaries, wages and benefits	441,188
Services supplies and other	237,843
Wastewater Construction:	
Non-capitalized construction costs	304,372
Wastewater Treatment Plant:	
Salaries, wages and benefits	641,576
Services supplies and other	1,510,660
Depreciation	2,639,242
Total operating expenses	5,774,881
Operating income (loss)	(282,561)
<b>Non-operating Revenues (Expenses)</b>	
Taxes	4,565,693
Recovery of sales taxes	72,971
Capacity fees	392,365
Investment earnings	111,930
Interest on long-term debt	(2,315,223)
Total non-operating revenue (expense)	2,827,736
Income before contributions and transfers	2,545,175
Transfers out	(63,842)
Change in net position	2,481,333
Net position, beginning of year	64,757,035
Prior period adjustment	(336,869)
Restatement adjustment	(840,379)
Net position, end of year	\$ 66,061,120

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, 2013**

	<u>Business-Type Activities Wastewater Enterprise Fund</u>
<b>Cash Flows From Operating Activities:</b>	
Cash received from customers, service fees	\$ 5,556,685
Cash received from customers, other	52,445
Cash paid to suppliers	(1,874,045)
Cash paid to employees	(1,078,382)
	<u>2,656,703</u>
<b>Cash Flows From Noncapital and Related Financing Activities:</b>	
Tax receipts	4,638,664
Cash flows from noncapital and related financing activities	4,574,822
	<u>4,574,822</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Purchase of capital assets	(646,812)
Principal paid on long term debt	(3,880,000)
Interest paid	(1,771,266)
Capacity fees and other	360,693
	<u>(5,937,385)</u>
<b>Cash Flows From Investing Activities:</b>	
Interest on investments	111,930
	<u>111,930</u>
Net change in cash and cash equivalents	1,406,070
Cash and cash equivalents, including temporarily restricted cash, beginning of year	16,473,864
	<u>16,473,864</u>
<b>Cash and cash equivalents, including temporarily restricted cash , end of year</b>	<b>\$ 17,879,934</b>
 Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Net operating income/(loss)	\$ (282,561)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	2,639,242
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	100,855
Increase/(Decrease) in payables	178,830
Increase/(Decrease) in customer deposits	15,955
Increase/(Decrease) in accrued wages and compensation	4,382
	<u>4,382</u>
Net cash flows from operating activities	<b>\$ 2,656,703</b>

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

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies**

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**Description of government-wide financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, when applicable, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**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. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that 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 two 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 SWMPC have been eliminated. The SWMPC has a June 30 year end and is reported with 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 are 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, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Basis of presentation – government-wide financial statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Basis of presentation – fund financial statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government 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 those accounted for in another fund.

The **Highway User Revenue Special Revenue Fund** is used to account for the City's share of motor fuel tax revenues and lottery proceeds which are restricted for the maintaining, repairing, and upgrading of streets.

The **Capital Improvement Fund** accounts for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The City reports the following major enterprise funds:

The **Wastewater Fund** accounts for the activities of the City's wastewater collection and treatment facilities and associated financing.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

**Measurement focus and basis of accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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Sales taxes, franchise taxes, 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement* focus and the accrual basis of accounting.

**Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

***Cash and cash equivalents***

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

***Investments***

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.

***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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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*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 \$5,000 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

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City currently has one item which qualifies for reporting in this category. It is the deferred charges on refunding reported in the government-wide statement of net position and on the proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: sales taxes and fee in lieu. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.



**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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*Net position flow assumption*

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

*Fund balance flow assumptions*

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

*Fund balance policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City’s highest level of decision-making authority. The City council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City council (council) has by resolution authorized the City manager to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1. Summary of Significant Accounting Policies, Continued**

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**Revenues and expenditures/expenses**

***Program revenues***

Amounts reported as 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

***Property taxes***

The City does not currently have a levy for any property taxes.

***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.

***Proprietary funds operating and nonoperating revenues and expenses***

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

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 1.           Summary of Significant Accounting Policies, Continued**

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*New Pronouncements*

In April 2012, the GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities*. Beginning with fiscal year 2013, the City implemented the provisions of this statement, which establishes accounting standards and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 12).

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**Note 2.           Reconciliation of Government-Wide and Fund Financial Statements**

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The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 17.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 19.

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**Note 3.           Stewardship, Compliance, and Accountability**

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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:

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 3. Stewardship, Compliance, and Accountability, Continued**

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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 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. No supplementary budgetary appropriations were made during the year ended June 30, 2013.

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, 2013, if any.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 3. Stewardship, Compliance, and Accountability, Continued**

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***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.

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**Note 4. Deposits and Investments**

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

Cash and cash equivalents	\$ 42,425,805
Restricted cash and cash equivalents	<u>22,705</u>
	<u><u>\$ 42,448,510</u></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, 2013, none of the City's bank balance of \$12,832,016 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.

**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.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 4 . Deposits and Investments, Continued**

As of June 30, 2013 the City had the following deposits and investments:

	Fair Value	Credit Rating	Weighted Average Maturity
Cash on deposit	\$ 12,680,333	N/A	N/A
Cash on hand	7,309	N/A	N/A
U.S. Treasury Notes	1,006,875	N/A	1 -3 Years
Local Governments Investment Pool	28,753,993	(1)	(2)
	\$ 42,448,510		

- (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 invests in securities backed by the U.S Government and has a rating of AA+. Investment Pool #500 has a Weighted Average Rating of AA.
- (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 .04 years and Investment Pool #500’s Weighted Average Maturity was 1.99 years.

**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 5. Restricted Assets**

Restricted assets consisted of the following at June 30, 2013:

Wastewater Fund - Customer Deposits	\$ 22,705
	\$ 22,705

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 6. Capital Assets**

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

<b>Governmental Activities:</b>	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2013</b>
Capital assets, not being depreciated:				
Land	\$ 6,960,501	\$ 625,553	\$ -	\$ 7,586,054
Construction in progress	622,794	1,979,735	(1,644,067)	958,462
Total capital assets, not being depreciated	<u>7,583,295</u>	<u>2,605,288</u>	<u>(1,644,067)</u>	<u>8,544,516</u>
Capital assets, being depreciated:				
Land improvements	4,928,942	1,395,250	(90,427)	6,233,765
Buildings and improvements	6,520,214	272,230	(811)	6,791,633
Machinery, equipment and vehicles	5,262,699	554,519	(171,971)	5,645,247
Infrastructure	19,844,975	972,375	(17,500)	20,799,850
Total capital assets, being depreciated	<u>36,556,830</u>	<u>3,194,374</u>	<u>(280,709)</u>	<u>39,470,495</u>
Less accumulated depreciation for:				
Land improvements	(1,443,150)	(220,067)	107,029	(1,556,188)
Buildings and improvements	(2,301,464)	(245,664)	1,406	(2,545,722)
Machinery, equipment and vehicles	(4,503,072)	(382,245)	171,199	(4,714,118)
Infrastructure	(7,399,905)	(2,909,923)	1,566	(10,308,262)
Total accumulated depreciation	<u>(15,647,591)</u>	<u>(3,757,899)</u>	<u>281,200</u>	<u>(19,124,290)</u>
Total capital assets, being depreciated, net	<u>20,909,239</u>	<u>(563,525)</u>	<u>491</u>	<u>20,346,205</u>
Governmental activities capital assets, net	<u>\$ 28,492,534</u>	<u>\$ 2,041,763</u>	<u>\$ (1,643,576)</u>	<u>\$ 28,890,721</u>

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

<b>Governmental Activities:</b>	
General government	\$ 433,385
Public safety	147,353
Public works/streets	3,123,651
Community services	53,510
Total depreciation expense - governmental activities	<u>\$ 3,757,899</u>

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 6. Capital Assets, Continued**

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

<b>Business Type Activities:</b>	<b>Balance 6/30/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 6/30/2013</b>
Capital assets not being depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Construction in progress	11,174	555,922	-	567,096
Total capital assets, not being depreciated	<u>11,170,587</u>	<u>555,922</u>	<u>-</u>	<u>11,726,509</u>
Capital assets being depreciated:				
Wastewater system	113,191,571	-	-	113,191,571
Machinery, equipment and vehicles	4,615,308	90,890	-	4,706,198
Total capital assets, being depreciated	<u>117,806,879</u>	<u>90,890</u>	<u>-</u>	<u>117,897,769</u>
Less accumulated depreciation for:				
Wastewater system	(25,841,556)	(2,563,165)	-	(28,404,721)
Machinery, equipment and vehicles	(4,372,546)	(76,076)	-	(4,448,622)
Total accumulated depreciation	<u>(30,214,102)</u>	<u>(2,639,241)</u>	<u>-</u>	<u>(32,853,343)</u>
Total capital assets, being depreciated, net	<u>87,592,777</u>	<u>(2,548,351)</u>	<u>-</u>	<u>85,044,426</u>
Business-type activities capital assets, net	<u>\$ 98,763,364</u>	<u>\$ (1,992,429)</u>	<u>\$ -</u>	<u>\$ 96,770,935</u>

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

<b>Business-Type Activities:</b>	
Wastewater	<u>\$ 2,639,241</u>



**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 7. Long-Term Debt**

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

	Balance 6/30/2012	Additions	Retirements	Balance 6/30/2013	Current Portion
<b>Governmental Activities:</b>					
Bonds Payable:					
Revenue bonds	\$ 11,300,000	\$ -	\$ (330,000)	\$ 10,970,000	\$ 330,000
Deferred Amounts:					
Premium	192,044	-	(26,544)	165,500	-
Total Revenue Bonds	<u>11,492,044</u>	<u>-</u>	<u>(356,544)</u>	<u>11,135,500</u>	<u>330,000</u>
Other Liabilities:					
Capital leases	41,198	-	(24,309)	16,889	16,889
Compensated absences	349,821	295,473	(295,473)	349,821	272,852
Total Other Liabilities	<u>391,019</u>	<u>295,473</u>	<u>(319,782)</u>	<u>366,710</u>	<u>289,741</u>
Total Governmental Long-Term Debt	<u>\$ 11,883,063</u>	<u>\$ 295,473</u>	<u>\$ (676,326)</u>	<u>\$ 11,502,210</u>	<u>\$ 619,741</u>
<b>Business-Type Activities:</b>					
Bonds Payable:					
Revenue bonds	\$ 43,780,000	\$ -	\$ (3,880,000)	\$ 39,900,000	\$ 4,075,000
Deferred Amounts:					
Premium	2,229,337	-	(239,838)	1,989,499	-
Total Revenue Bonds	<u>46,009,337</u>	<u>-</u>	<u>(4,119,838)</u>	<u>41,889,499</u>	<u>4,075,000</u>
Other Liabilities:					
Compensated absences	57,343	28,661	(24,279)	61,725	48,144
Total Other Liabilities	<u>57,343</u>	<u>28,661</u>	<u>(24,279)</u>	<u>61,725</u>	<u>48,144</u>
Total Business-Type Long-Term Debt	<u>\$ 46,066,680</u>	<u>\$ 28,661</u>	<u>\$ (4,144,117)</u>	<u>\$ 41,951,224</u>	<u>\$ 4,123,144</u>
Total Long-Term Liabilities	<u>\$ 57,949,743</u>	<u>\$ 324,134</u>	<u>\$ (4,820,443)</u>	<u>\$ 53,453,434</u>	<u>\$ 4,742,885</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, 2013**

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**Note 7. Long-Term Debt, Continued**

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The following is a listing of revenue obligation bonds outstanding as of June 30, 2013:

**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	2,175,000
Principal balance outstanding - Business-type	10,890,000
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	4,020,000
Total Revenue Bonds Payable	\$ 50,870,000
Classification by type:	
Governmental-type Activities	\$ 10,970,000
Business-type Activities	39,900,000
Total Revenue Bonds Payable	\$ 50,870,000

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 7. 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
2014	\$ 330,000	\$ 501,266	\$ 4,075,000	\$ 1,576,663
2015	345,000	484,767	3,775,000	1,382,363
2016	345,000	467,516	4,605,000	1,203,463
2017	380,000	450,266	4,790,000	987,513
2018	1,110,000	435,065	3,875,000	785,213
2019-2023	4,455,000	1,550,606	9,255,000	14,157,875
2024-2027	4,005,000	465,675	9,525,000	4,128,600
Totals	<u>\$ 10,970,000</u>	<u>\$ 4,355,161</u>	<u>\$ 39,900,000</u>	<u>\$ 24,221,690</u>

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

Total principal and interest paid during the year	\$ 5,401,724
Total excise taxes current year	\$ 13,271,639

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, 2013, the amount of defeased debt outstanding but removed from the City's financial statements was \$32,160,000.

**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.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 7. Long-Term Debt, Continued**

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2013 are as follows:

Year Ending June 30 <u>2014</u>	<u>17,205</u>
Total remaining minimum lease payments	17,205
Less amount representing interest	<u>(316)</u>
Present value of net remaining minimum lease payments	<u>\$ 16,889</u>

Assets acquired through capital leases are as follows:

Asset:	<u>Governmental Activities</u>
Machinery and equipment	\$ 114,032
Less: Accumulated depreciation	<u>(114,032)</u>
Total	<u>\$ -</u>

**Note 8. Interfund Receivables, Payables and Transfers**

As of June 30, 2013, there were no interfund receivables and payables recorded to eliminate short-term deficit pooled cash balances in the various funds.

Interfund transfers for the fiscal year ended June 30, 2013 are as follows:

	<u>Transfers in:</u>				
<b>Transfers out:</b>	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Highway Users Revenue Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
General Fund	\$ -	\$ 140,773	\$ 298,343	\$ -	\$ 439,116
Capital Improvement Fund	85,586	-	-	259,131	344,717
Nonmajor Funds	-	-	-	10,000	10,000
Wastewater Fund	<u>52,087</u>	<u>-</u>	<u>-</u>	<u>11,755</u>	<u>63,842</u>
Total	<u>\$ 137,673</u>	<u>\$ 140,773</u>	<u>\$ 298,343</u>	<u>\$ 280,886</u>	<u>\$ 857,675</u>

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 8. Interfund Receivables, Payables and Transfers, Continued**

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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.

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**Note 9. Risk Management**

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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 no 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.

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**Note 10. Retirement and Pension Plans**

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**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, or by accessing the website at [www.azasrs.gov](http://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

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 10. Retirement and Pension Plans, Continued**

contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement, and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required to contribute 11.14 percent (10.25 percent for retirement, 0.65 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
2011	376,429	24,027	9,153
2012	403,982	25,786	9,823
2013	492,528	31,233	11,532

**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, or by accessing the website at [www.psprs.com](http://www.psprs.com)

**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 16.45 percent of covered compensation. The health insurance premium portion of the contribution rate was actuarially set at 1.12 percent of covered payroll.

**Actuarial Methods and Assumptions** - The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (health insurance and long-term disability), 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 and healthcare cost trend rates are not applicable. The actuarial value of assets are determined using techniques that smooth the effects of short-term volatility in the market value of investments and spreads differences between actual and assumed investment return 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

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

**Note 10. Retirement and Pension Plans, Continued**

amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013, was 23 years for unfunded actuarial accrued liability and 18 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, 2013 the City's annual pension cost of \$209,172 and the annual OPEB cost of \$15,282 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	2011	247,359	100%	-
	2012	209,300	100%	-
	2013	209,172	100%	-
Health Insurance	2011	21,131	100%	-
	2012	21,952	100%	-
	2013	15,282	100%	-

**Funded Status and Funding Progress** - The funded status of the plan as of June 30, 2013 is as follows:

	Retirement	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 7,852,899	\$ 155,634
Actuarial value of plan assets	5,695,571	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,157,328</u>	<u>\$ 155,634</u>
Funded ratio (actuarial value of plan assets/AAL)	72.5%	0.0%
Covered payroll (active plan members)	\$ 1,204,424	\$ 1,204,424
UAAL as a percentage of covered payroll	179.1%	12.9%

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.

**CITY OF SEDONA, ARIZONA**  
**Notes to the Financial Statements**  
**June 30, 2013**

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**Note 11. Contingent Liabilities and Commitments**

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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, 2013.

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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**NOTE 12. Restatements and Reclassifications**

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As mentioned in Note 1 to the financial statements, the City implemented GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. The provisions of this statement require that bond issuance costs be expensed in the year they are incurred. Previously, bond issuance costs had been treated as an asset and amortized over the life of the related debt. In order to implement GASB statement No. 65, bond issuance costs previously reported as assets had to be removed from the financial statements. This resulted in a restatement of beginning equity in the City's Wastewater Fund in the amount of \$840,379. Assets of the Wastewater Fund were reduced by the same amount. This also resulted in a restatement of beginning equity in the City's Governmental Statement of Net Position in the amount of \$219,848. Assets of the Governmental Activities were reduced by the same amount. In addition, deferred charges on refunding in the amount of \$280,896 and \$813,423 were classified as Deferred Outflows of resources in the Governmental Activities and Business-type Activities respectively, instead of netting the amount against noncurrent liabilities due in more than one year.

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**NOTE 13. Prior Period Adjustment**

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A prior period adjustment was made in the Wastewater Fund for \$336,869 to correct accrued interest. The effect of this adjustment was to increase Accrued Interest Payable and decrease Net Position.



**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, 2013, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
<b>Valuation Date June 30,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>[(b)-(a)] / (c)</b>
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	5,411,507	6,734,914	1,323,407	80.4%	1,339,699	98.8%
2013	5,695,571	7,852,899	2,157,328	72.5%	1,204,424	179.1%

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

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
<b>Valuation Date June 30,</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Annual Covered Payroll</b>	<b>[(b)-(a)] / (c)</b>
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	-	138,890	138,890	0.0%	1,339,699	10.4%
2013	-	155,634	155,634	0.0%	1,204,424	12.9%

Health insurance subsidy payment reported for fiscal year 2013: \$450.

**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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ 50,000	\$ 50,000	\$ 930,444	\$ 880,444
Interest	41,817	41,817	47,127	5,310
Other	-	-	342,525	342,525
Total revenues	<u>91,817</u>	<u>91,817</u>	<u>1,320,096</u>	<u>1,228,279</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>\$ 5,943,200</u>	<u>\$ 5,943,200</u>	<u>\$ 3,156,958</u>	<u>\$ 2,786,242</u>
Total expenditures	<u>5,943,200</u>	<u>5,943,200</u>	<u>3,156,958</u>	<u>2,786,242</u>
Excess of revenues				
Over (Under) expenditures	(5,851,383)	(5,851,383)	(1,836,862)	4,014,521
<b>Other Financing Sources (Uses):</b>				
Transfers out	(545,170)	(545,170)	(344,717)	200,453
Transfers in	<u>860,809</u>	<u>860,809</u>	<u>140,773</u>	<u>(720,036)</u>
Total other financing Sources (Uses)	<u>315,639</u>	<u>315,639</u>	<u>(203,944)</u>	<u>(519,583)</u>
Net change in fund balances	(5,535,744)	(5,535,744)	(2,040,806)	3,494,938
Fund balance, beginning of year	<u>7,943,949</u>	<u>7,943,949</u>	<u>7,943,949</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,408,205</u>	<u>\$ 2,408,205</u>	<u>\$ 5,903,143</u>	<u>\$ 3,494,938</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Charges for services	\$ 5,424,528	\$ 5,424,528	\$ 5,455,830	\$ 31,302
Capacity fees	100,000	100,000	392,365	292,365
Taxes	4,407,923	4,407,923	4,565,694	157,771
Recovery of sales taxes	82,000	82,000	72,971	(9,029)
Investment earnings	171,685	171,685	111,930	(59,755)
Other income	16,305	16,305	36,490	20,185
Total revenues	10,202,441	10,202,441	10,635,280	432,839
<b>Expenses</b>				
Wastewater Administration:				
Salaries, wages and benefits	421,935	421,935	441,188	(19,253)
Services supplies and other	231,344	231,344	237,843	(6,499)
Wastewater Construction	2,864,684	2,864,684	951,184	1,913,500
Wastewater Treatment Plant:				
Salaries, wages and benefits	638,888	638,888	641,576	(2,688)
Services supplies and other	1,712,938	1,712,938	1,510,659	202,279
Debt service	6,093,726	6,093,726	6,195,223	(101,497)
Total expenses	11,963,515	11,963,515	9,977,673	1,985,842
Excess (deficiency) of revenues over expenses	(1,761,074)	(1,761,074)	657,607	(1,553,003)
<b>Other Financing Sources (Uses)</b>				
Transfers out		-	(63,842)	
Total other financing sources (uses)	-	-	(63,842)	-
Change in net position	(1,761,074)	(1,761,074)	593,765	(1,553,003)
Net position, beginning of year	30,272,321	30,272,321	30,272,321	-
Net position, end of year	\$ 28,511,247	\$ 28,511,247	\$ 30,866,086	\$ (1,553,003)

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

Net position, end of year, budgetary basis	30,866,086
Adjustments to reconcile to net position:	
Adjustment for differences reported in previous years	34,484,712
Adjustments for current year:	
Depreciation	(2,639,242)
Capital outlay	646,812
Principal paid on long term debt	3,880,000
Prior period adjustment	(336,869)
Restatement adjustment	(840,379)
Net position, end of year	\$ 66,061,120

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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, 2013**

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
<b>ASSETS</b>				
Cash	\$ 299,059	\$ 61,141	\$ 781,732	\$ 47,060
Receivables:				
Taxes	-	60,641	64,085	-
Intergovernmental	191,445	-	-	-
Total assets	<u>\$ 490,504</u>	<u>\$ 121,782</u>	<u>\$ 845,817</u>	<u>\$ 47,060</u>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	\$ 85,498	\$ -	\$ -	\$ -
Unearned revenues	245,174	-	-	-
Total liabilities	<u>330,672</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unavailable revenue - taxes	-	60,641	-	-
Total deferred inflows of resources	<u>-</u>	<u>60,641</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted for:				
Public safety	159,832	-	-	-
Community services	-	61,141	845,817	-
Capital outlay	-	-	-	-
Committed to:				
Community services	-	-	-	47,060
Total fund balances	<u>159,832</u>	<u>61,141</u>	<u>845,817</u>	<u>47,060</u>
Total liabilities, deferred inflows of of resources, and fund balances	<u>\$ 490,504</u>	<u>\$ 121,782</u>	<u>\$ 845,817</u>	<u>\$ 47,060</u>



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<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>
\$ 3,553,949	\$ 60,812	\$ 4,803,753
-	-	124,726
-	-	191,445
<u>\$ 3,553,949</u>	<u>\$ 60,812</u>	<u>\$ 5,119,924</u>
\$ 5,140	\$ 64,703	\$ 155,341
-	-	245,174
<u>5,140</u>	<u>64,703</u>	<u>400,515</u>
-	-	60,641
-	-	60,641
-	-	159,832
-	-	906,958
3,548,809	(3,891)	3,544,918
-	-	47,060
<u>3,548,809</u>	<u>(3,891)</u>	<u>4,658,768</u>
<u>\$ 3,553,949</u>	<u>\$ 60,812</u>	<u>\$ 5,119,924</u>

**CITY OF SEDONA, ARIZONA**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2013**

	Special Revenue			
	Grants	Summit II CFD	Fairfield CFD	Arts
<b>REVENUES:</b>				
Taxes	\$ -	\$ 47,085	\$ 131,996	\$ -
Intergovernmental	388,363	-	-	-
Contributions/donations	46,770	-	-	-
Impact fees	-	-	-	-
Investment earnings	-	3,057	19	484
Other revenues	-	-	-	6,843
<b>Total revenues</b>	<b>435,133</b>	<b>50,142</b>	<b>132,015</b>	<b>7,327</b>
<b>EXPENDITURES:</b>				
Current:				
General government	-	-	-	-
Public safety	196,874	-	-	-
Public works/Streets	18,021	-	-	-
Economic development	247,752	-	-	-
Community services	45,173	-	-	3,380
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<b>507,820</b>	<b>-</b>	<b>-</b>	<b>3,380</b>
Excess of revenues				
Over (under) expenditures	(72,687)	50,142	132,015	3,947
Other Financing Sources (Uses):				
Transfers out	(10,000)	-	-	-
Transfers in	-	-	-	21,755
Total other financing sources (uses):	(10,000)	-	-	21,755
Net change in fund balances	(82,687)	50,142	132,015	25,702
Fund balances, beginning of year	242,519	10,999	713,802	21,358
Fund balances (deficit), end of year	<u>\$ 159,832</u>	<u>\$ 61,141</u>	<u>\$ 845,817</u>	<u>\$ 47,060</u>

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<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>
\$ -	\$ -	\$ 179,081
-	-	388,363
-	-	46,770
278,480	-	278,480
9,196	-	12,756
-	-	6,843
<u>287,676</u>	<u>-</u>	<u>912,293</u>
-	258,019	258,019
-	-	196,874
-	-	18,021
-	-	247,752
-	5,003	53,556
<u>73,312</u>	<u>-</u>	<u>73,312</u>
<u>73,312</u>	<u>263,022</u>	<u>847,534</u>
<u>214,364</u>	<u>(263,022)</u>	<u>64,759</u>
-	-	(10,000)
-	<u>259,131</u>	<u>280,886</u>
-	<u>259,131</u>	<u>270,886</u>
214,364	(3,891)	335,645
<u>3,334,445</u>	<u>-</u>	<u>4,323,123</u>
<u>\$ 3,548,809</u>	<u>\$ (3,891)</u>	<u>\$ 4,658,768</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenue	\$ 1,402,645	\$ 1,402,645	\$ 388,363	\$ (1,014,282)
Contributions/donations	53,000	53,000	46,770	(6,230)
Other	60,000	60,000	-	(60,000)
Total revenues	<u>1,515,645</u>	<u>1,515,645</u>	<u>435,133</u>	<u>(1,080,512)</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	447,645	447,645	196,874	250,771
Public works/streets	565,000	565,000	18,021	546,979
Economic development	364,000	364,000	247,752	116,248
Community services	149,000	149,000	45,173	103,827
Total expenditures	<u>1,525,645</u>	<u>1,525,645</u>	<u>507,820</u>	<u>1,017,825</u>
Excess of revenues				
Over (Under) expenditures	(10,000)	(10,000)	(72,687)	(62,687)
<b>Other Financing Sources (Uses):</b>				
Transfers out	-	-	(10,000)	(10,000)
Total other financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
Net change in fund balance	(10,000)	(10,000)	(82,687)	(72,687)
Fund balance, beginning of year	<u>242,519</u>	<u>242,519</u>	<u>242,519</u>	<u>-</u>
Fund balance, end of year	<u>\$ 232,519</u>	<u>\$ 232,519</u>	<u>\$ 159,832</u>	<u>\$ (72,687)</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes:				
Special CFD tax	\$ -	\$ -	\$ 47,085	\$ 47,085
Interest	2,987	2,987	3,057	70
Total revenues	<u>2,987</u>	<u>2,987</u>	<u>50,142</u>	<u>70</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ -	\$ -	\$ -	\$ -
Public works/streets	-	-	-	-
Community services	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues				
Over (Under) expenditures	2,987	2,987	50,142	47,155
<b>Other Financing Sources (Uses):</b>				
Transfers out	-	-	-	-
Transfers in	-	-	-	-
Total other financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	2,987	2,987	50,142	47,155
Fund balance, beginning of year	<u>10,999</u>	<u>10,999</u>	<u>10,999</u>	<u>-</u>
Fund balance, end of year	<u>\$ 13,986</u>	<u>\$ 13,986</u>	<u>\$ 61,141</u>	<u>\$ 47,155</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, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Taxes:				
Special CFD tax	\$ 147,091	\$ 147,091	\$ 131,996	\$ (15,095)
Interest	2,432	2,432	19	(2,413)
Total revenues	<u>149,523</u>	<u>149,523</u>	<u>132,015</u>	<u>(17,508)</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ -	\$ -	\$ -	\$ -
Public works/streets	-	-	-	-
Community services	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Total expenditures	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Excess of revenues				
Over (Under) expenditures	139,523	139,523	132,015	(7,508)
Fund balance, beginning of year	<u>713,802</u>	<u>713,802</u>	<u>713,802</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 853,325</u></u>	<u><u>\$ 853,325</u></u>	<u><u>\$ 845,817</u></u>	<u><u>\$ (7,508)</u></u>

**CITY OF SEDONA, ARIZONA**  
**ARTS**  
**SPECIAL REVENUE FUND**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Interest	\$ 750	\$ 750	\$ 484	\$ (266)
Other	-	-	6,843	6,843
Total revenues	<u>750</u>	<u>750</u>	<u>7,327</u>	<u>6,577</u>
<b>EXPENDITURES</b>				
Current:				
Community services	<u>\$ 68,333</u>	<u>\$ 68,333</u>	<u>\$ 3,380</u>	<u>\$ 64,953</u>
Total expenditures	<u>68,333</u>	<u>68,333</u>	<u>3,380</u>	<u>64,953</u>
Excess of revenues				
Over (Under) expenditures	(67,583)	(67,583)	3,947	71,530
<b>Other Financing Sources (Uses):</b>				
Transfers in	<u>37,583</u>	<u>37,583</u>	<u>21,755</u>	<u>(15,828)</u>
Total other financing Sources (Uses)	<u>37,583</u>	<u>37,583</u>	<u>21,755</u>	<u>(15,828)</u>
Net change in fund balance	(30,000)	(30,000)	25,702	55,702
Fund balance, beginning of year	<u>21,358</u>	<u>21,358</u>	<u>21,358</u>	<u>-</u>
Fund balance, end of year	<u>\$ (8,642)</u>	<u>\$ (8,642)</u>	<u>\$ 47,060</u>	<u>\$ 55,702</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, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Impact fees	\$ 189,128	\$ 189,128	\$ 278,480	\$ 89,352
Interest	44,494	44,494	9,196	(35,298)
Total revenues	<u>233,622</u>	<u>233,622</u>	<u>287,676</u>	<u>54,054</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>1,757,561</u>	<u>1,757,561</u>	<u>73,312</u>	<u>1,684,249</u>
Total expenditures	<u>1,757,561</u>	<u>1,757,561</u>	<u>73,312</u>	<u>1,684,249</u>
Excess of revenues				
Over (Under) expenditures	(1,523,939)	(1,523,939)	214,364	1,738,303
Fund balance, beginning of year	<u>3,334,445</u>	<u>3,334,445</u>	<u>3,334,445</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 1,810,506</u></u>	<u><u>\$ 1,810,506</u></u>	<u><u>\$ 3,548,809</u></u>	<u><u>\$ 1,738,303</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, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Interest	\$ -	\$ -	\$ -	\$ -
Other	-	-	-	-
Total revenues	-	-	-	-
<b>EXPENDITURES</b>				
General government	348,175	348,175	258,019	90,156
Public safety	-	-	-	-
Public works/streets	-	-	-	-
Community services	5,100	5,100	5,003	97
Total expenditures	353,275	353,275	263,022	90,253
Excess of revenues				
Over (Under) expenditures	(353,275)	(353,275)	(263,022)	90,253
<b>Other Financing Sources (Uses):</b>				
Transfers in	353,275	353,275	259,131	(94,144)
Total other financing Sources (Uses)	353,275	353,275	259,131	(94,144)
Net change in fund balance	-	-	(3,891)	(3,891)
Fund balance, beginning of year	-	-	-	-
Fund balance (deficit), end of year	\$ -	\$ -	\$ (3,891)	\$ (3,891)

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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 .....	67
<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 .....	72
<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 .....	76
<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.....	80
<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 .....	83
<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)**

	<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>	<u>2013</u>
<b>Governmental activities</b>										
Net investment in capital assets	\$ 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	\$ 18,019,228
Restricted	2,574,064	-	10,154,808	7,469,407	7,688,303	10,987,109	9,929,271	9,048,404	9,015,587	10,514,851
Unrestricted	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	14,612,403
Total governmental activities net position	\$ 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	\$ 43,146,482
<b>Business-type activities</b>										
Net investment in capital assets	\$ 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	\$ 55,694,859
Restricted	1,096,724	1,123,821	1,175,288	1,240,451	587,477	100,818	92,327	-	-	-
Unrestricted	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	10,366,261
Total Business-type activities net position	\$ 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	\$ 66,061,120
<b>Primary government</b>										
Net investment in capital assets	\$ 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	\$ 73,714,087
Restricted	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	10,514,851
Unrestricted	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	24,978,664
Total primary government net position	\$ 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	\$ 109,207,602

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

<b>Expenses</b>	<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>	<u>2013</u>
Governmental activities:										
General government	\$ 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	\$ 6,206,323
Public safety	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	2,654,768
Highways and streets	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	5,635,022
Community services	148,340	497,465	648,177	789,371	1,058,508	1,037,534	815,848	1,357,077	2,004,255	1,834,854
Interest on long-term debt	72,119	60,907	96,414	256,297	309,469	755,167	636,191	583,175	567,901	559,672
Total governmental activities expenses	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	16,890,639
Business-type activities:										
Wastewater	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	8,090,104
Total business-type activities expenses	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	8,090,104
Total primary government expenses	\$ 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	\$ 24,980,743
<b>Program Revenues</b>										
Governmental Activities:										
Charges for services:										
General government	788,806	1,138,189	700,352	673,643	687,888	705,542	717,236	189,417	289,510	100,625
Public safety	14,901	14,211	12,282	9,257	52,491	96,472	42,929	200,129	202,465	154,786
Highways and streets	449,871	416,376	292,668	276,348	364,474	200,290	159,839	139,856	27,583	90,065
Community services	34,253	36,728	30,646	39,557	40,590	103,587	124,140	57,475	64,714	68,367
Interest on long-term debt	-	47,620	38,704	26,735	17,340	5,553	-	-	-	-
Operating grants and contributions	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	1,970,762
Capital grants and contributions	1,968,924	367,035	783,213	523,562	550,975	337,391	426,903	918,037	688,239	779,462
Total governmental activities program revenues	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	3,164,067
Business-type activities:										
Charges for services:										
Wastewater	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	5,884,685
Operating grants and contributions	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	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	5,884,685
Total primary government program revenues	\$ 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	\$ 9,048,752

(continued) (continued)

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

	<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>	<u>2013</u>
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (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)	\$ (13,726,572)
Business-type activities	(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)	(2,205,419)
Total primary government net expense	<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>	<u>\$ (15,931,991)</u>
<b>General Revenues and Other</b>										
<b>Changes in Net Assets</b>										
Governmental activities:										
Taxes:										
Sales taxes	\$ 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	\$ 8,824,918
Special CFD tax	178,613	189,610	239,402	248,220	304,252	569,667	393,293	-	-	-
Franchise taxes	560,683	564,575	591,055	640,752	667,237	661,177	666,326	699,088	713,577	720,455
State revenue sharing	919,006	936,926	1,067,096	1,241,513	1,538,883	1,637,088	1,411,823	1,064,334	846,624	1,024,645
State sales taxes	857,455	944,190	1,082,364	1,039,344	1,004,970	870,023	802,470	830,562	783,825	821,056
Auto-in-lieu	548,663	579,030	654,636	603,640	585,027	593,707	551,996	543,380	476,438	483,343
Bed tax in-lieu	-	-	-	-	-	-	-	-	380,270	692,049
Investment earnings	147,336	446,834	880,958	1,044,373	1,021,475	735,011	533,139	166,085	215,593	127,098
Other	5,481	13,414	62,441	44,178	44,351	244,088	1,405,705	88,974	37,116	64,367
In Lieu of Fees										
Transfers	-	130,000	-	-	-	479,856	404,856	-	-	63,842
Total governmental activities	<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>	<u>12,821,773</u>
Business-type activities:										
Sales taxes	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	4,638,664
Investment earnings	257,470	638,993	1,048,673	1,493,451	1,423,139	734,783	409,512	134,460	208,284	111,930
Transfers	-	(130,000)	-	-	-	(479,856)	(404,856)	-	-	(63,842)
Total business-type activities	<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>	<u>4,686,752</u>
Total Primary government	<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>	<u>\$ 17,508,525</u>
<b>Change in Net Position</b>										
Governmental activities	\$ 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	\$ (904,799)
Business-type activities	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	2,481,333
Total primary government	<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>	<u>\$ 1,576,534</u>

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

	<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>	<u>2013</u>
<b>General fund</b>										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	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	14,295,776
<b>Total general fund</b>	<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>	<u>\$ 14,295,776</u>
<b>All other governmental funds</b>										
Restricted:										
Roads and Highways	\$ 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 *	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	9,448,061
Debt service	351,997	351,727	328,012	274,795	225,510	(1,923)	-	-	-	-
Other	650,691	808,043	935,630	1,162,225	1,388,547	1,810,903	1,010,866	779,272	967,320	1,066,790
Committed for:										
Arts	43,441	59,532	68,848	104,162	118,316	142,277	115,108	73,804	21,358	47,060
Capital Outlay *	-	-	-	-	-	-	-	4,394,902	4,443,144	-
Assigned for:										
Other	-	-	-	-	-	-	-	-	-	-
<b>Total all other governmental funds</b>	<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>	<u>\$ 10,561,911</u>

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

\* 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)**

	<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>	<u>2013</u>
<b>Revenues</b>										
Taxes	\$ 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	\$ 9,756,849
Intergovernmental	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	4,825,104
Fines and forfeitures	190,270	168,953	216,431	324,562	368,785	268,848	269,104	200,129	202,465	154,786
Licenses and permits	233,951	230,797	186,037	192,882	164,807	212,366	207,092	179,555	276,000	334,756
Charges for services	161,231	546,461	144,563	153,751	154,194	161,103	184,458	98,339	125,142	89,118
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	51,945
Impact fees	-	416,376	292,668	276,348	364,474	302,216	278,352	154,162	297,107	278,480
Special assessments	279,565	252,155	221,518	197,125	203,172	163,266	-	-	-	-
Investment earnings	149,620	442,627	877,907	1,037,999	1,021,475	735,012	533,139	221,786	284,730	139,854
Other	638,928	64,271	199,436	45,244	133,662	235,581	506,745	292,300	120,851	521,353
<b>Total Revenues</b>	<b>\$ 14,525,065</b>	<b>\$ 14,475,610</b>	<b>\$ 16,933,081</b>	<b>\$ 16,718,030</b>	<b>\$ 17,259,497</b>	<b>\$ 16,874,620</b>	<b>\$ 16,254,550</b>	<b>\$ 14,165,299</b>	<b>\$ 14,071,683</b>	<b>\$ 16,152,245</b>
<b>Expenditures</b>										
Current:										
General government	\$ 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	\$ 5,639,357
Public safety	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	2,723,035
Highways and streets	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	3,332,977
Community services	730,158	640,865	646,384	807,619	970,037	1,169,314	843,316	1,654,380	1,914,570	1,803,515
Capital outlay	-	-	-	-	-	-	-	640,589	939,719	3,230,270
Principal	190,000	200,000	215,000	535,000	550,000	586,753	345,942	362,009	378,130	354,309
Interest and fiscal charges	72,119	60,907	49,161	209,044	262,216	689,685	570,707	562,465	547,193	538,964
<b>Total expenditures</b>	<b>11,976,950</b>	<b>13,977,871</b>	<b>16,219,887</b>	<b>19,053,445</b>	<b>17,004,858</b>	<b>20,579,446</b>	<b>16,595,650</b>	<b>13,219,376</b>	<b>13,728,204</b>	<b>17,622,427</b>
Revenues over (under) expenditures:	2,548,115	497,739	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)	945,923	343,479	(1,470,182)
<b>Other finance sources (Uses)</b>										
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	412,946	362,337	422,475	467,376	600,874	881,308	1,669,463	316,125	838,373	857,675
Transfers out	(412,946)	(232,337)	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)	(316,125)	(838,373)	(793,833)
Total other finance sources (uses)	-	(209,725)	-	-	8,943,917	593,888	404,856	-	-	63,842
<b>Net change in fund balances</b>	<b>\$ 2,548,115</b>	<b>\$ 288,014</b>	<b>\$ 713,194</b>	<b>\$ (2,335,415)</b>	<b>\$ 9,198,556</b>	<b>\$ (3,110,938)</b>	<b>\$ 63,756</b>	<b>\$ 945,923</b>	<b>\$ 343,479</b>	<b>\$ (1,406,340)</b>
Debt service as a percentage of noncapital expenditures:	2.24%	1.90%	1.66%	4.06%	5.02%	6.61%	5.85%	7.93%	7.80%	6.62%

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

<b>Tax Remitter</b>	<b>Fiscal Year 2013</b>				<b>Fiscal Year 2004</b>		
	<b>Tax Liability</b>	<b>Rank</b>	<b>Percentage of Total</b>		<b>Tax Liability</b>	<b>Rank</b>	<b>Percentage of Total</b>
Retail Trade	\$ 3,941,680	1	34.3%	Retail Trade	\$ 3,382,688	1	28.0%
Hotels & Other Lodging	3,142,085	2	27.4%	Hotels & Other Lodging	2,908,781	2	24.0%
Restaurants & Bars	1,769,999	3	15.4%	Construction	1,540,425	3	12.7%
Construction	799,034	4	7.0%	Restaurants & Bars	1,452,812	4	12.0%
Insurance & Real Estate	747,856	5	6.5%	Insurance & Real Estate	838,876	5	6.9%
Trans/Comm/Utilities	566,849	6	4.9%	Services	651,305	6	5.4%
Services	503,248	7	4.4%	Trans/Comm/Utilities	634,559	7	5.2%
Wholesale Trade	10,290	8	0.1%	Manufacturing	329,459	8	2.7%
Municipality & All Other			0.0%	Municipality & All Other	242,167	9	2.0%
Manufacturing			0.0%	Wholesale Trade	117,504	10	1.0%
	<u>\$ 11,481,041</u>		<u>100.0%</u>		<u>\$ 12,098,576</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>
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
2013	6,999,858	1,857,455	179,081	720,455	9,756,849

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)**

	<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>	<u>2013</u>
<b>Sales Category</b>										
Mining	\$ 38	\$ 586	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125	\$ 62	\$ -	\$ -
Construction	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	799,034
Manufacturing	329,459	379,754	392,883	385,046	327,604	309,407	265,998	183,658	15,124	-
Transportation, Communication and Utilities	634,559	637,664	675,906	689,975	694,121	670,573	704,133	691,194	610,278	566,849
Wholesale trade	117,504	123,798	122,250	139,891	130,121	135,271	121,420	70,613	27,402	10,290
Retail trade	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	3,941,680
Restaurants and bars	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	1,769,999
Finance, Insurance and real estate	838,876	923,366	873,166	974,352	896,313	861,924	853,836	800,883	770,388	747,856
Accommodations	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	3,142,085
Services	651,305	687,305	403,291	423,789	397,286	321,006	349,848	509,518	569,619	503,248
Public administrator	7,908	9,349	5,934	36,147	22,927	21,339	11,831	6,370	24,763	-
All other outlets	234,221	22,470	168,299	464,840	477,197	426,937	447,836	284,872	12,972	-
	<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>	<u>\$ 11,481,041</u>
Direct sales tax rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Source: Arizona Department of Revenue

Note: Fiscal Year 2013 amounts reflect receipts through June 2013

**CITY OF SEDONA, ARIZONA**  
**Revenue Capacity**  
**Direct and Overlapping Sales Tax Rate:**  
**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>
2004	3.00%	0.75%	0.925%	5.60%
2005	3.00%	0.75%	0.925%	5.60%
2006	3.00%	0.75%	0.925%	5.60%
2007	3.00%	0.75%	1.125%	5.60%
2008	3.00%	0.75%	1.125%	5.60%
2009	3.00%	0.75%	1.125%	5.60%
2010 <sup>a</sup>	3.00%	0.75%	1.125%	6.60%
2011	3.00%	0.75%	1.125%	6.60%
2012	3.00%	0.75%	1.125%	6.60%
2013 <sup>a</sup>	3.00%	0.75%	1.125%	5.60%

Source: Arizonal Department of Revenue

a - The State of Arizona rate went from 5.6% to 6.6 % on June 1, 2010, and went to 5.6% on June 1, 2013

**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			
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
2013	10,970,000	-	16,889	-	39,900,000	-	-	50,886,889	16.00	5,098

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 <sup>(1)</sup>	Estimated Percentage Applicable <sup>(2)</sup>	Estimated Share of Overlapping Debt
State of Arizona	None	0.53%	None
Coconino County	None	16.97%	None
Yavapai County	None	12.37%	None
Coconino County C.C.D.	\$ 11,085,000	16.97%	\$ 1,881,125
Yavapai County C.C.D.	36,610,000	12.37%	\$ 4,528,657
Sedona-Oak Creek Unified S.D. No. 5	57,725,000	60.28%	\$ 34,796,630
Sedona Fire District	None	60.14%	None
City of Sedona	50,886,889	100.00%	\$ 50,886,889
Total direct and overlapping debt			\$ 92,093,301

Source: Individual jurisdictions and the Arizona Tax Research Association

<sup>(1)</sup> Includes general obligation bonds, revenue bonds, certificates of participation and capital leases outstanding

<sup>(2)</sup> Proportion applicable to the City of Sedona, Arizona, is computed on the ratio of secondary assessed valuation for 2012 calendar year.

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

Fiscal Year	WIFA Loan					
	Gross Revenues (1)	Less: Operating Expenses (2)	Net Available Revenue	Principal	Interest	Coverage
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	-	-	-	-	-	N/A
2012	-	-	-	-	-	N/A
2013	-	-	-	-	-	N/A

Fiscal Year	Special Assessment Bonds				
	Special Assessment Collections	Principal	Interest	Total	Coverage
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
2013	-	-	-	-	N/A

Fiscal Year	Excise Tax Revenue Bonds				
	Excise Tax Revenues	Principal	Interest	Total	Coverage
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
2013	13,271,639	4,210,000	2,279,329	6,489,329	2.05

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

(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.



**CITY OF SEDONA, ARIZONA**

**Debt Capacity**

**Debt Limitations and Computation of Legal Debt Margi**

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 298,617,510	\$ 298,617,510
Total assessed value	\$ 298,617,510	\$ 298,617,510
Legal debt margin:		
Debt limitation	\$ 59,723,502	\$ 17,917,051
Debt applicable to limitation:		
General Obligation Bonds	-	-
Total debt applicable to limitator	-	-
Legal debt margin	\$ 59,723,502	\$ 17,917,051
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 th assessed valuation for general municipal purposes.

Additional general obligation bonds for up to 20% of assessed valuation can be issued for specific purpose 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
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
2013	9,981	318,608,492	31,922	56.1	1,219	8.70

Sources: 2010 Census, workforce.az.gov, AZSTATS.GOV, Arizona Department of Economic Security, Arizona Economic Estimates Commission, Sedona/Oak Creek School District

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

**CITY OF SEDONA, ARIZONA**  
**Demographic and Economic Informatio**  
**Principal Employer:**  
**Current Fiscal Year and Nine Years Ago (Unaudited**

Employer	2013			2004		
	Employees <sup>(1)</sup>	Rank	Percentage of Total City Employment	Employees <sup>(1)</sup>	Rank	Percentage of Total City Employment <sup>(2)</sup>
Enchantment Resorts (location outside of City	500	1	7.47 %	390	3	N/A
Diamond Resorts International (4 properties) <sup>(3)</sup>	450	2	6.73			
Los Abrigados				500	1	N/A
Sedona Summit (formerly Sunterra Resorts)				400	2	N/A
L'Auberge de Sedona Resor	270	3	4.04	180	5	N/A
Hilton Resort & Spa (Location outside of City)	200	4	2.99	225	4	N/A
Sedona/Oak Creek School District	160	5	2.39	180	6	N/A
Pink Jeep Tours	160	6	2.39			N/A
Sedona Rouge	115	7	1.72			N/A
City of Sedona	108	8	1.61	107	8	N/A
Amara Resort	93		1.39			N/A
Poco Diablo Resort (formerly Radisson)	89	9	1.33	120	7	N/A
	<u>2,145</u>		<u>32.06 %</u>	<u>2,102</u>		<u>N/A</u>

Source: The Arizona Department of Commerce, individual business

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

(2) Percentage of total City employment unavailable for 2004

(3) Diamond Resorts International now owns Sedona Summit, Los Abrigados, Ridge on Sedona Golf Resort and Bell Rock Inn. Employee count is for all four resorts

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Management Services	20	24	23	25	25	25	18	17	18	19
Finance	4	5	5	5	5	5	5	6	5	7
Planning	2	4	4	5	5	5	6	6	6	6
Building	2	3	3	3	3	3	2	2	2	3
Other	1	1	1	1	1	1	1	1	5	5
Public Safety										
Officers	24	25	29	31	31	30	24	24	26	26
Civilians	8	9	9	8	8	10	8	10	10	10
Other Public Works										
Engineering	2	4	5	5	5	5	4	4	4	4
Other	10	9	11	11	11	11	14	14	13	13
Redevelopment	7	8	7	7	7	7	4	4	3	2
Parks and Recreation	5	6	6	6	6	7	3	2	2	2
Wastewater	7	7	8	11	11	11	11	11	10	10
<b>Total</b>	<b>92</b>	<b>105</b>	<b>111</b>	<b>118</b>	<b>118</b>	<b>120</b>	<b>100</b>	<b>101</b>	<b>104</b>	<b>107</b>

Source: City of Sedona, Arizona

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Government										
Building Permits Issued	627	607	507	573	553	537	593	463	472	476
Building Inspections Conducted	3,033	3,431	2,303	3,168	2,737	2,180	2,086	1,277	1,453	1,781
Police										
Physical Arrests	643	594	439	662	542	652	544	537	497	364
Parking Violations	60	65	80	87	86	40	195	149	195	587
Traffic Violations	2,266	2,750	2,475	2,296	4,589	3,772	3,310	2,617	2,268	2,340
Other Public Works										
Street Resurfacing (Miles)	0.7	1.2	1.1	2.0	4.3	3.5	-	2.4	3	3.75
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	1.1	1.1	1.1	1.3	1.2	1.1	1.1	1.2	1.117	1.127

Source: City of Sedona, Arizona

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
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	7	8	9	11	11	12	16	13	13	17
Other Public Works										
Streets (Miles) <sup>(1)</sup>	101	102	154.5	154.5	154.5	154.5	154.4	154.4	154.4	106
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	8	8	8	8	136
Parks and Recreation										
Acreage <sup>(2)</sup>	100.3	100.3	100.3	100.3	100.3	91.8	93.0	93	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	579	615	619	650	651	651	659	659	659	659
Wastewater										
Sanitary Sewers (Miles) <sup>(2)</sup>	-	-	156.4	159.3	75.0	75.0	75.0	75	166	166
Treatment Capacity (Millions of Gallons)	2.0	2.0	2.0	2.2	2.0	2.0	2.0	2	2	2

Source: City of Sedona, Arizona

<sup>(1)</sup> Number of street miles from 2006 to 2012 as reported in the corresponding years' financial statements are unverified

<sup>(2)</sup> Acreage for Parks was corrected in updating GIS maps for the City during the FY 2009 year

<sup>(3)</sup> Miles of Sanitary Sewers from 2008 to 2011 as reported in the corresponding years' financial statements are unverified

**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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MEMBERS:

CHAD B. ATKINSON, CPA  
KRIS J. BRAUNBERGER, CPA  
DEAN R. BURDICK, CPA  
ROBERT S. COX, CPA  
TODD B. FELTNER, CPA  
K. MARK FROST, CPA

KENNETH A. HINTON, CPA  
MORRIS J. PEACOCK, CPA  
PHILLIP S. PEINE, CPA  
MICHAEL K. SPILKER, CPA  
KEVIN L. STEPHENS, CPA  
MARK E. TICHENOR, CPA

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**Independent Auditors' 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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise City of Sedona, Arizona's basic financial statements, and have issued our report thereon dated October 12, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Sedona, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sedona, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sedona, Arizona's internal control.

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 a 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in our separate schedule of findings and recommendations dated October 12, 2013, we identified certain deficiencies in internal control that we consider to be material weaknesses.

11-1. Year-end Accounting and Financial Statement Controls

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Sedona, Arizona's financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HintonBurdick, PLLC  
Flagstaff, Arizona  
October 12, 2013



MEMBERS:

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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, 2013, and have issued our report thereon dated October 12, 2013. 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, 2013.

The purpose of this report is solely to describe the scope of our testing of the applicable compliance requirements identified in the Arizona Revised Statutes as noted above and the results of that testing based on the state requirements. Accordingly, this report is not suitable for any other purpose.

*HintonBurdick, PLLC*  
HintonBurdick, PLLC  
Flagstaff, Arizona  
October 12, 2013

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