

City Talk Column for Feb. 8, 2023
Financial Services Department
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The city's FY 2022 audit results are in...

As discussed in the Jan. 10, 2023 City Council meeting, the fiscal year (FY) 2022 annual comprehensive financial report (ACFR) is the guide to the financial activities of the city. While the annual budget adoption establishes the capacity of resources available to spend based on best guesses many months in advance of the fiscal year, more importantly the ACFR identifies what actually happened during the fiscal year. The ACFR is part of a state-mandated annual financial audit. The independent auditors, CliftonLarsonAllen, were selected by a committee of citizens and Financial Services Department staff and approved by the Council in 2021. As in past years, the auditors rendered an unmodified or "clean" opinion on the FY 2022 ACFR. Also similar to the last several years, there were no audit findings in any of the reports presented to the Council.

In the FY 2022 adopted budget, it was estimated the year would end with \$59.8 million remaining to be used as resources going into the next fiscal year. The actual total ending fund balances for the fiscal year exceeded that at \$100.5 million. For the city's main operating fund, the general fund, the adopted budget projected a surplus in excess of reserve requirements of \$6.6 million. The actual surplus was \$13.8 million. During the FY 2023 budget process, the Council allocated the \$12.2 million surplus generated in FY 2021, plus \$5.6 million of the FY 2022 surplus, to capital reserves, affordable housing, public transit and police pension contributions. The remaining FY 2022 surplus of \$8.2 million will be allocated during the FY 2024 budget process in accordance with policy.

The FY 2022 expenditure budget was \$62.7 million and actual expenditures were \$49.2 million, \$13.5 million or 22% under budget. This mirrors past years with actual amounts being significantly under budget. The city budget regularly includes contingencies and placeholders that are not fully spent. In addition, capital improvement budgets tend to reflect a more aggressive plan in case projects move more quickly than expected.

In comparison to the prior year, expenditures increased \$6.9 million or 16%. The prior year, FY 2021, began shortly after the COVID-19 closures ended and many restrictions were still in place. The increases in FY 2022 included resumption of parks and recreation programs, economic development programs, maintenance of facilities and infrastructure, as well as filling staff positions that were previously delayed. FY 2022 also included advancement of various initiatives including sustainability, affordable housing, public transit and transportation improvements.

The FY 2022 revenue budget was \$57.8 million and actual revenues were \$58.0 million, \$0.2 million over budget. In comparison to the prior year, revenues increased \$4.5 million or 9%. The prior year, FY 2021, did not see the significant reductions in revenues originally anticipated in light of the impacts of COVID-19 on the economy. FY 2022 continued to see highly significant increases in sales and bed tax revenues for many months; however those significant increases began to slow down in spring 2022.

The city's long-term obligations increased \$20.3 million or 45% over the prior year and were due to the issuance of the bonds in March 2022 for transportation projects, plus a change in governmental accounting rules now requiring certain leases to be included. The threshold for the city's debt outstanding is based on a ratio of revenues pledged to pay the debt compared to the annual debt

payments. The requirement is a ratio of pledged revenues of 1.5 times. The city has maintained very high ratios significantly above the requirement. For FY 2022, the ratio was 7.5 times, well above the mandatory level.

The city's FY 2022 ACFR can be found at www.sedonaaz.gov/finance. If you have questions about the city's audit or financial status, please contact me at (928) 204-7185.