

City Talk Column for Feb. 14, 2024
Financial Services Department
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The city's FY 2023 audit results are in...

The fiscal year (FY) 2023, from July 1, 2022 – to June 30, 2023, 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 have rendered an unmodified or “clean” opinion on the FY 2023 ACFR. The only audit finding was related to a federal grant and did not result in any instances of noncompliance, only a recommended change to vendor verification procedure which is being corrected as part of the city's recently centralized procurement activities.

In the FY 2023 adopted budget, it was estimated the year would end with \$103.7 million remaining to be used as resources going into the next fiscal year. Due to lower than anticipated sales and bed tax collections, the actual total ending fund balances for the fiscal year was \$99.4 million; however, this only impacted the significant surpluses that the budget had projected. For the city's main operating fund, the general fund, the adopted budget projected a surplus in excess of reserve requirements of \$14.0 million. The actual surplus was \$10.8 million. During the FY 2024 budget process, the Council allocated the remaining \$8.3 million surplus generated in FY 2022, plus \$4.9 million of the FY 2023 surplus, to affordable housing and police pension contributions. The remaining FY 2023 surplus of \$5.8 million will be allocated during the FY 2025 budget process in accordance with policy.

The FY 2023 expenditure budget was \$105.7 million and actual expenditures were \$74.2 million, \$31.5 million or 30% 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 in FY 2023 increased \$25.4 million or 52%, a big portion of which was the former Cultural Park purchase. Excluding this \$20.0 million purchase, remaining expenditures increased \$5.3 million or 11%. The increases in FY 2023 included increases for additional contributions to the police pension, additional debt service payments for the transportation bonds issued in March 2022 and the land acquisition bonds issued in December 2022, a full year of trailhead shuttle service, and pay adjustments resulting from a salary study and merit increases. FY 2023 also included advancement of various initiatives including evacuation planning, monitoring and permitting of short-term rentals, sustainability, and expansion of the communications program.

The FY 2023 revenue budget was \$70.6 million and actual revenues were \$63.4 million, \$7.2 million under budget, due to the unanticipated decrease in sales and bed tax revenues. In comparison to the prior year, revenues increased \$5.4 million or 9%, due to increases in investment earnings as a result of significant unrealized losses in the fair value of investments recognized in the prior year, increases in grant funding including American Rescue Plan Act (ARPA) funding, and increases in wastewater capacity

fees received for significant development and a general increase in construction activities requiring sewer connections.

The city's long-term obligations increased \$8.3 million or 13% over the prior year and were due to the issuance of the bonds in December 2022 for a portion of the acquisition costs of the former Cultural Park land and increases in unfunded pension liability costs. 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 2023, the ratio was 5.3 times, well above the mandatory level.

The city's FY 2023 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.