



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
JUNE 30, 2014**

**City of Sedona
Arizona**

CITY OF SEDONA, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

Prepared by:
Financial Services Department

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CITY OF SEDONA, ARIZONA

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December 16, 2014

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

We are pleased to submit to you the 2014 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, 2014, 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, 2014, 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, as 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 10,140. The City has attempted to manage its growth in a way to maintain its character. The City's population has decreased slightly in recent years. 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. Tourist activity is beginning to return to pre-recession levels; the rate of growth is expected to be slow but steady over the next several years.

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 just re-authorized it in August, 2014.

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 2014 a successful year, and will provide for continued success in the years to come. Revenues exceeded conservative budget estimates by approximately 10%, and were budgeted at a 3% increase for FY 2015.

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 51% of the General Fund revenues. The City's sales tax rate is currently at 3%. In order to address the economic downturn, the sales tax split was adjusted to provide 1.95% to the General Fund and 1.05% 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 3.5% Bed tax (occupancy) which is allocated to the General Fund. Sales tax revenues are expected to increase moderately over the next several years.

For the 2015 fiscal year, the City Council committed funding to a destination marketing program. The marketing program is focused on increasing interest and visitation to Sedona as a destination with local options for many types of activities and attractions. The Sedona Tourism Bureau kicked off the program in mid-July, 2014.

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 16.1% 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 its 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, especially demand for infrastructure, after fiscal year 2017. 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.

Financial Policies

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 six-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 well-above 100%. As the economy continues to rebound, fund balances will be spent down to upper limit policy levels of 50-75% over the next few years to support capital projects, with a high priority for drainage projects to address flooding in the City, which can occur when the region is hit with strong storms.

Major Initiatives and Service Efforts and Accomplishments for the Year

During fiscal year 2014, 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 2014:

Police

- Implemented a new Neighborhood Watch Program designed to enhance crime prevention activities and community interaction.
- Conducted two Police Citizen Academies to enhance community interaction.
- Completed enhancements and improvements to the Property/Evidence function to ensure the security and integrity of items taken into police possession.
- Replaced old electronics control devices (Taser) with new models and trained all officers in appropriate handling and use.

Public Works

- Completed Harmony-Windsong Phase 4 construction.
- Completed City Hall drainage improvement construction.
- Completed Solider Wash drainage improvement construction.
- Constructed new transit shelters throughout the City.
- Completed design and construction of the Sunset Park Splash Pad project.

Management Services

- Converted City Council Packets to iPads for key staff members.
- Implemented city Notification System called Sedona Citizens Connect.
- Coordinated annual electronics recycling day for the public.
- Implemented in-house administration of the annual business license program, to improve customer service and facilitate more direct relationships with the business community.
- Secured five new public parking agreements with private lot owners to add over 200 new public parking spaces to the Uptown business district.
- Implemented the new Citizen Engagement Program including creation of a citizen volunteer registry, a Citizen Budget Committee, and new social media opportunities to engage citizens in City activities.
- Produced a 2013 Annual Community Report and Community Newsletter.

Community Development

- New Community Plan was approved by City Council in November 2013 after three year extensive community planning process and approved by the voters on March 11, 2014.
- Community Development Block Grant (CDBG) funded the expansion and upgrade to the Sedona Community Center's kitchen.
- Completed and implemented a Development Impact Fee study.

Parks & Recreation

- Participated in the Holiday Central Sedona, and added a new holiday event - Tinsel Town - at the Posse Grounds Park.
- Installed a water slide at the Sedona Community Pool.
- Facilitated the Capital Christmas Tree visiting Sedona.
- Hosted a 4th of July Laser show and concert for 4,000+ attendees.

Wastewater

- Completed and implemented the recommendations of a Wastewater Rate and Capacity Fee Study.
- Completed test on an aquifer injection well to confirm the feasibility of an expanded project for effluent management and disposal.
- Completed design for plant capacity upgrades, which includes adding a third secondary clarifier, a second aerobic digester, and new blowers that will be more efficient and provide better control for the process.
- Arc Flash Analysis and Coordination study was completed on the treatment plant and three major lift stations.

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 and in FY 2014, the Council and staff completed an additional 9 of the priorities:

- Applied for and received the International Dark-Sky Community (IDA) designation.
- Formed a work group to explore and research modifications to the City's policy on consumption of alcohol at City venues, including parks.
- Completed the Annual Community Report.
- Completed an annual newsletter, distributed in June 2014.
- Held several community listening outreach meetings with groups.
- Developed a strategic plan to implement the Parks Master Plan.
- Purchased the 3.46 acre property at 250 Brewer Road, which may be developed as park, open space, museums and/or historical landmarks.
- Continued to improve the financial reporting products.
- Dedicated funding for Destination Marketing Program, which was launched in July, 2014

All Councilors agreed to continue to support the outstanding priorities.

Awards and Acknowledgments

The Government Finance Officers 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, 2013. This was the 15th 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.

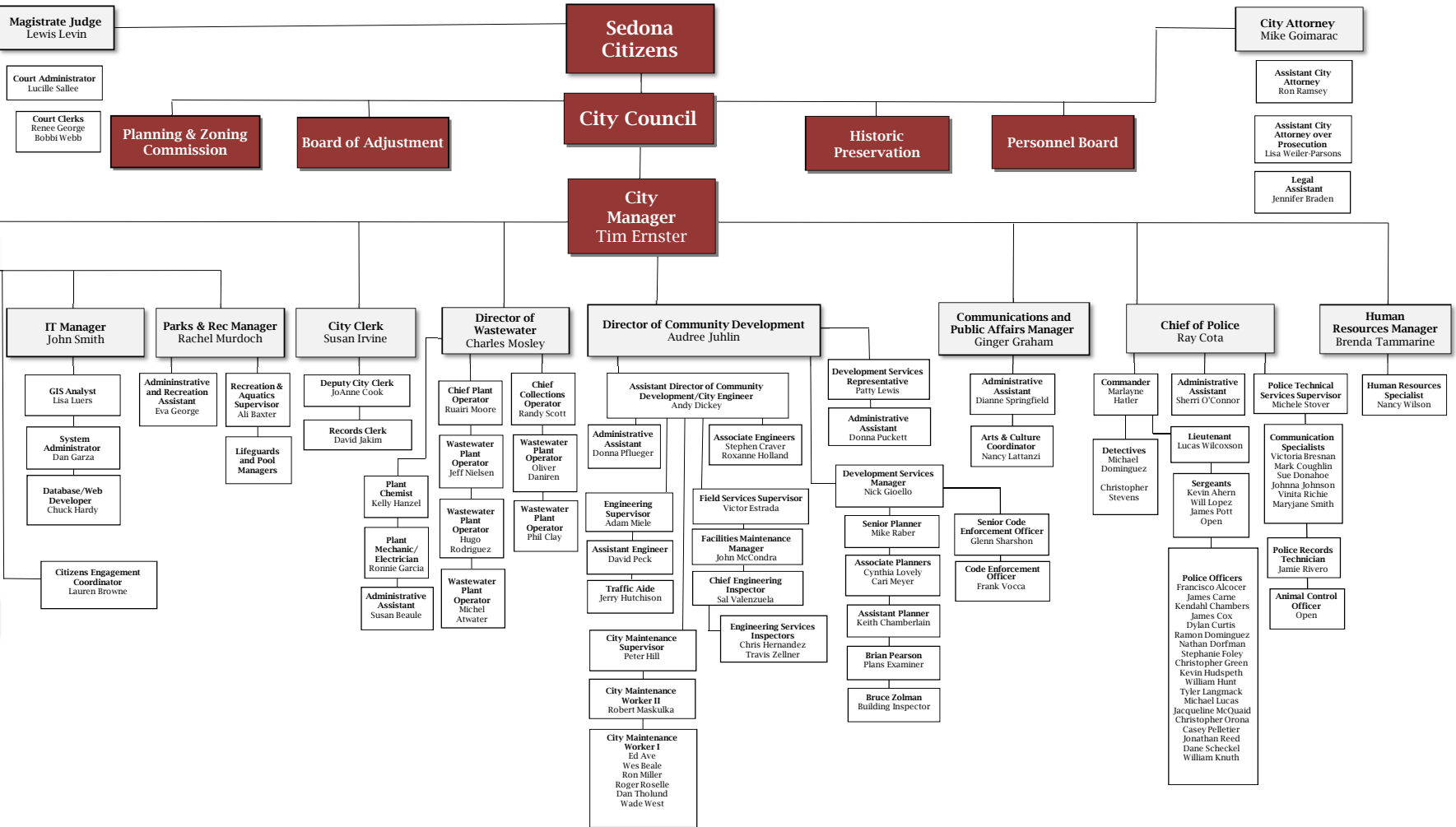
Sincerely,



Tim Ernster
City Manager



Karen Daines
Assistant City Manager



CITY OF SEDONA, ARIZONA

List of Elected and Appointed Officials

June 30, 2014

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

Tabatha Miller
Director of Financial Services



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Sedona
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION

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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, 2014, 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, 2014, 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.

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 to 11, and the public safety retirement system information on page 47 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 December 19, 2014, 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

December 19, 2014

CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2014

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, 2014. 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 \$114,810,536. This amount is comprised of \$80,164,077 in net investment in capital assets, \$6,770,279 of restricted net position and \$27,876,180 in unrestricted net position.
- Governmental net position increased by \$3,064,777 and Business-Type net position increased by \$2,538,157.
- Total City Sales tax revenue increased over last year by 16% and still is the single largest revenue in the budget.
- Improvements totaling \$4.3 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 \$14.9 million leaving \$48.4 million in total outstanding debt at the close of the year. The total debt service payments included refunding the Excise Tax Obligations, Second Series 2004 to obtain a lower interest rate and resulted in net savings of \$544,025.
- The General Fund's total fund balance increased by \$3,217,397 to \$17,513,173. The unassigned fund balance represents 111% of total General Fund expenditures for the fiscal year.
- The Capital Improvement fund balance decreased by \$3,479,284 to a total fund balance of \$2,423,859 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 26-45.

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 47.

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 \$114 million as of June 30, 2014 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	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 26,720,963	\$ 27,443,861	\$ 19,113,026	\$ 18,584,798	\$ 45,833,989	\$ 46,028,659
Capital assets	32,426,493	28,890,721	95,263,656	96,770,935	127,690,149	125,661,656
Total assets	<u>59,147,456</u>	<u>56,334,582</u>	<u>114,376,682</u>	<u>115,355,733</u>	<u>173,524,138</u>	<u>171,690,315</u>
Total deferred outflows of resources	123,400	280,896	368,884	813,423	492,284	1,094,319
Long-term liabilities outstanding	11,062,259	11,502,210	44,953,447	48,809,083	56,015,706	60,311,293
Other liabilities	<u>1,997,338</u>	<u>1,966,786</u>	<u>1,192,842</u>	<u>1,298,953</u>	<u>3,190,180</u>	<u>3,265,739</u>
Total liabilities	<u>13,059,597</u>	<u>13,468,996</u>	<u>46,146,289</u>	<u>50,108,036</u>	<u>59,205,886</u>	<u>63,577,032</u>
Net position:						
Net investment in capital assets	21,865,051	18,019,228	58,299,026	55,694,859	80,164,077	73,714,087
Restricted	6,770,279	10,514,851	-	-	6,770,279	10,514,851
Unrestricted	<u>17,575,929</u>	<u>14,612,403</u>	<u>10,300,251</u>	<u>10,366,261</u>	<u>27,876,180</u>	<u>24,978,664</u>
Total net position	<u>\$ 46,211,259</u>	<u>\$ 43,146,482</u>	<u>\$ 68,599,277</u>	<u>\$ 66,061,120</u>	<u>\$ 114,810,536</u>	<u>\$ 109,207,602</u>

The City has \$173,524,138 in total assets, \$492,284 in deferred outflows of resources, with \$127,690,149 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.

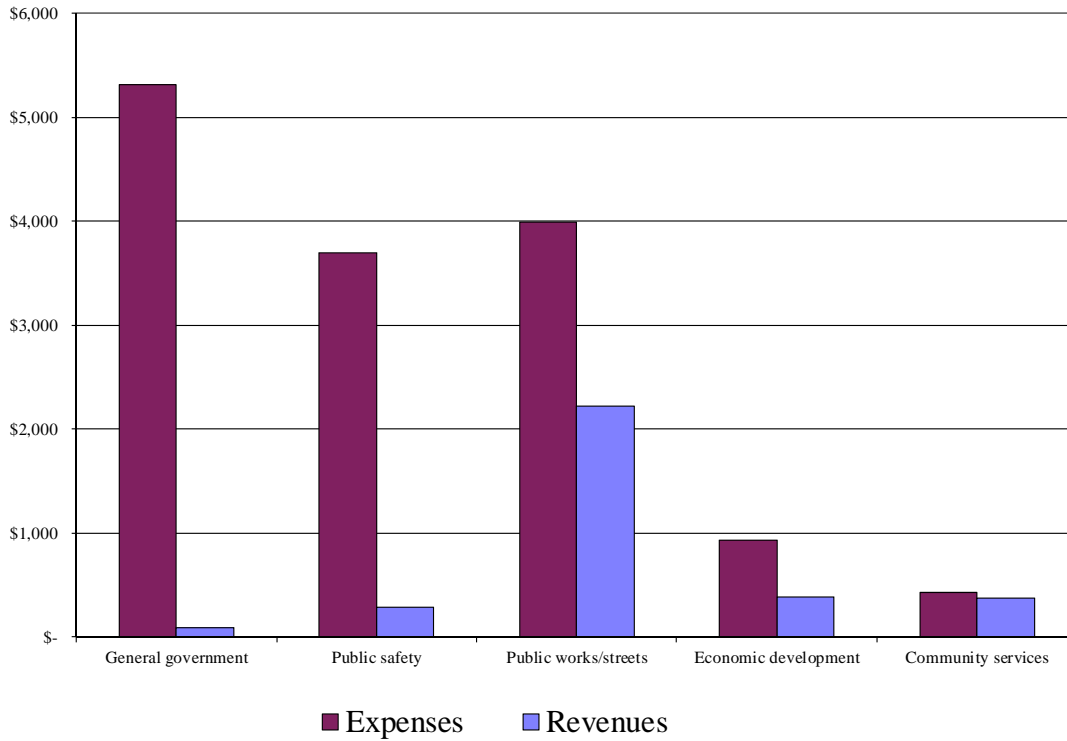
City of Sedona
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Revenues:						
Program revenues:						
Charges for services	\$ 733,628	\$ 413,843	\$ 5,908,088	\$ 5,884,685	\$ 6,641,716	\$ 6,298,528
Operating grants and contributions	1,844,336	1,970,762	-	-	1,844,336	1,970,762
Capital grants and contributions	758,272	779,462	-	-	758,272	779,462
General revenues:						
Taxes	13,021,948	11,541,821	4,478,074	4,638,664	17,500,022	16,180,485
State revenue sharing	1,118,082	1,024,645	-	-	1,118,082	1,024,645
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Investment earnings	255,995	127,098	126,548	111,930	382,543	239,028
Other revenue/(expense)	164,187	64,367	-	-	164,187	64,367
Total revenues	17,896,448	15,921,998	10,512,710	10,635,279	28,409,158	26,557,277
Expenses:						
General government	5,314,798	5,231,759	-	-	5,314,798	5,231,759
Public safety	3,691,142	2,654,768	-	-	3,691,142	2,654,768
Public works/Streets	3,986,709	5,635,022	-	-	3,986,709	5,635,022
Economic development	426,571	1,834,854	-	-	426,571	1,834,854
Community services	932,919	974,564	-	-	932,919	974,564
Interest on long-term debt	563,158	559,672	-	-	563,158	559,672
Wastewater	-	-	7,890,927	8,090,104	7,890,927	8,090,104
Total expenses	14,915,297	16,890,639	7,890,927	8,090,104	22,806,224	24,980,743
Increase (Decrease) in net position before transfers	2,981,151	(968,641)	2,621,783	2,545,175	5,602,934	1,576,534
Transfers	83,626	63,842	(83,626)	(63,842)	-	-
Increase (Decrease) in net position	3,064,777	(904,799)	2,538,157	2,481,333	5,602,934	1,576,534
Net position, beginning	43,146,482	44,271,129	66,061,120	64,757,035	109,207,602	109,028,164
Restatement/Prior period adjustment	-	(219,848)	-	(1,177,248)	-	(1,397,096)
Net position, ending	\$ 46,211,259	\$ 43,146,482	\$ 68,599,277	\$ 66,061,120	\$ 114,810,536	\$ 109,207,602

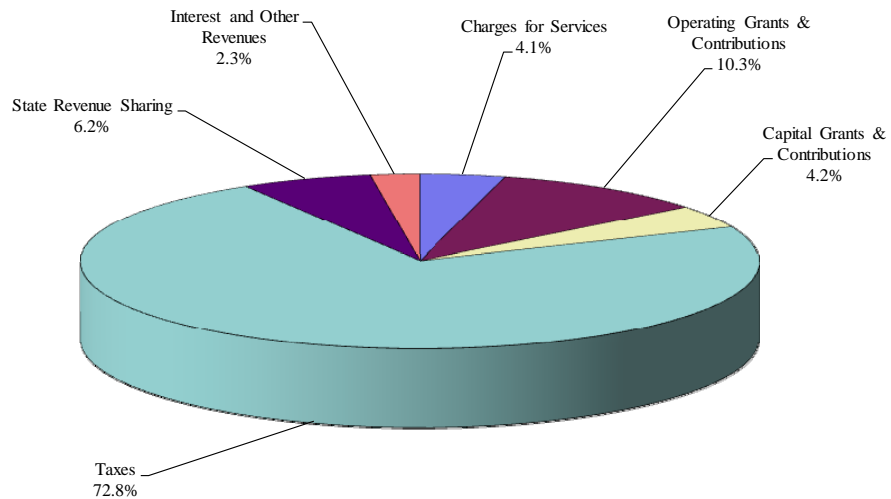
Total resources available during the year to finance governmental operations were \$61 million consisting of Net position at July 1, 2013 of \$43.1 million, program revenues of \$3.3 million and General Revenues of \$14.5 million. Total Governmental Activities during the year were \$14.9 million; thus Governmental Net Position was increased by \$3,064,777 to \$46.2 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)



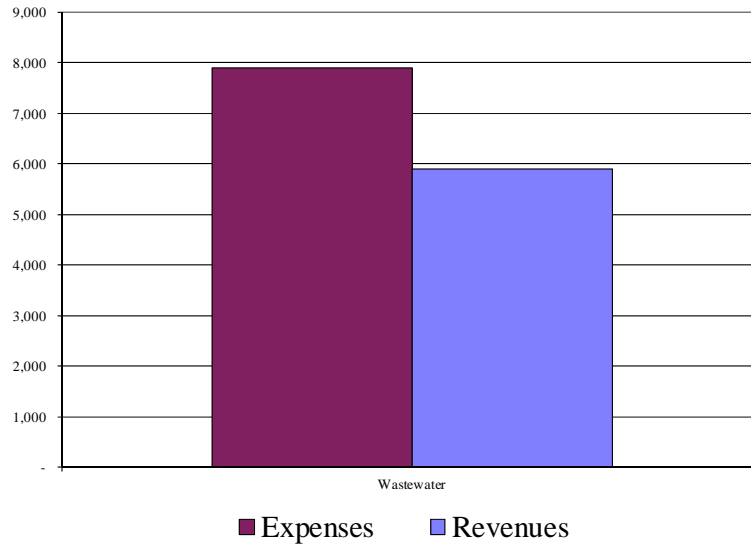
Revenue By Source - Governmental Activities



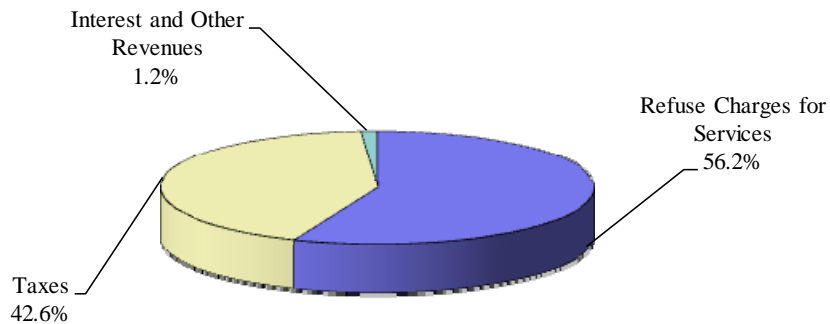
Business Type Activities

Net position of the Business Type activities at June 30, 2014, as reflected in the Statement of Net Position was \$68.6 million. The cost of providing all Proprietary (Business Type) activities this year was \$7.9 million. As shown in the statement of Changes in Net Position, the amounts paid by users of the system were \$5.9 million and there was \$4.5 million subsidized by sales tax revenues. Interest earnings and other revenues were \$126,548. The Net Position increased by \$2,538,157.

Expenses and Program Revenues - Business-Type Activities
(in Thousands)



Revenue By Source - Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental funds – The focus of the City of Sedona's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the City of Sedona's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Sedona's governmental funds reported combined ending fund balances of \$24.3 million, a decrease of \$0.5 million in comparison with the prior year. Approximately, 65% of this total amount or \$15.9 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 \$17,513,173, of which \$15,887,042 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. Unassigned fund balance represents 111% of total general fund expenditures and total fund balance represents 122% of total general fund expenditures.

During the year, the City of Sedona's general fund balance increased by \$3.2 million primarily due to realized revenues higher than budgeted and to a lesser extent cost savings in operating budget expenditures.

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 Capital Improvement fund balance decreased by \$3.5 million primarily due to various capital expenditures related to drainage projects, road and sidewalk improvements, and land acquisition for future parks. The primary funding source for the Capital Improvement fund is transfers of unassigned fund balance from the General Fund in order to finance capital projects and expenditures. The use of fund balance in the Capital Improvement fund was due to planned appropriations.

The Wastewater fund experienced a \$2,538,157 increase in net position for 2014 primarily due to expense savings from delayed capital projects and higher than budgeted allocation of sales tax receipts.

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 \$15,535,678, on a budgetary basis, were more than the budget of \$13,571,822 by \$1,963,856. The variance in budget to actual numbers for revenues primarily was the result of more than anticipated sales and bed tax receipts. General Fund expenditures of \$12,520,234 were 96% of the budgeted expenditures of \$13,036,504. The variance in budget to actual expenditures was the result of staff attrition and cost savings within departments for operating expenses such as purchased goods and services.

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 2014, net capital assets of the government activities totaled \$32.43 million and the net capital assets of the business-type activities totaled \$95.26 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 \$11.06 million in governmental type debt, and \$37.39 million in business-type debt. The debt is a liability of the government and amounts to \$4,736 per capita. The City's total debt decreased by \$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 2014-15 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue and use of fund balance at \$21,270,672 (including HURF fund expense transfer and an expense transfer of fund balance to the Capital Improvement fund of more than \$5.9 million). This will reduce the General Fund reserves by approximately \$6 million leaving them at approximately 78% of annual expenditures. The adopted fiscal year 2014-15 budget is \$38,385,154, which includes capital projects of \$12.1 million. The budget for fiscal year 2014-15 also includes:

- Continued city sales tax collections by third party administrator, Revenue Discovery Systems; the Arizona Department of Revenue was scheduled to take over all sales tax collections for cities and towns as part of the State's Transaction Privilege Tax (TPT) Simplification Program but this was delayed until January 1, 2016.
- Continued sales tax audits by independent auditor, Al Holler and Associates.
- Completion of the Art in Public Places Roundabout project.
- Completion of the Barbara Antonsen Public Venue Space at Posse Grounds Park.
- Design of the Bike Skills Park in Posse Grounds Park.
- Completion of the Airport Road Improvements.
- Completion of the AAA Industrial Park Drainage project.
- Possible park land or creek walk property acquisition.
- A contract grant writer/coordinator position.
- Fencing between the Wetlands Preserve and the Wastewater Treatment Plant for safety and separation from the steep slopes of the reservoirs and the Police Department shooting range.
- Upgrade to the Police Department 9-1-1 computer aided dispatch system, records management software, and E-Citations software and hardware.
- Software upgrades to enhance the functionality and the aesthetic appeal of the City's website.
- An update to the City's Internet service provider to provide faster and more reliable access to the City's website and streaming video.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to: City of Sedona, Financial Services Department, 102 Roadrunner Drive, Sedona, AZ 86336. (928) 204-7185. Or visit our website at: www.SedonaAZ.gov/finance.

BASIC FINANCIAL STATEMENTS

CITY OF SEDONA, ARIZONA
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 22,544,878	\$ 18,232,665	\$ 40,777,543
Receivables (net of allowance)	2,549,954	849,376	3,399,330
Temporarily restricted assets:			
Cash and cash equivalents	1,626,131	30,985	1,657,116
Capital assets (net of accumulated depreciation):			
Land	8,258,034	11,159,413	19,417,447
Construction in progress	1,209,011	1,188,470	2,397,481
Buildings	4,431,270	-	4,431,270
Improvements	4,709,014	-	4,709,014
System improvements	-	82,420,838	82,420,838
Machinery, equipment and vehicles	840,086	494,935	1,335,021
Infrastructure/Roads	12,979,078	-	12,979,078
Total assets	<u>59,147,456</u>	<u>114,376,682</u>	<u>173,524,138</u>
Deferred Outflows of Resources			
Deferred charge on refunding	123,400	368,884	492,284
Total deferred outflows of resources	<u>123,400</u>	<u>368,884</u>	<u>492,284</u>
Liabilities			
Accounts payable and other current liabilities	1,624,245	350,024	1,974,269
Customer deposits	-	30,985	30,985
Unearned revenue	373,093	811,833	1,184,926
Noncurrent liabilities:			
Interest payable	-	7,619,933	7,619,933
Due within one year	524,311	4,140,000	4,664,311
Due in more than one year	10,537,948	33,193,514	43,731,462
Total liabilities	<u>13,059,597</u>	<u>46,146,289</u>	<u>59,205,886</u>
Net Position			
Net investment in capital assets	21,865,051	58,299,026	80,164,077
Restricted for:			
Capital outlay	5,479,730	-	5,479,730
Public safety	126,848	-	126,848
Community services	1,163,701	-	1,163,701
Unrestricted	17,575,929	10,300,251	27,876,180
Total net position	<u>\$ 46,211,259</u>	<u>\$ 68,599,277</u>	<u>\$ 114,810,536</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, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 5,314,798	\$ 89,021	\$ -	\$ -	\$ (5,225,777)	\$ -	\$ (5,225,777)
Public safety	3,691,142	134,164	148,060	103	(3,408,815)	-	(3,408,815)
Public works/streets	3,986,709	70,943	1,673,892	470,390	(1,771,484)	-	(1,771,484)
Economic development	932,919	381,803	-	-	(551,116)	-	(551,116)
Community services	426,571	57,697	22,384	287,779	(58,711)	-	(58,711)
Interest on long-term debt	563,158	-	-	-	(563,158)	-	(563,158)
Total governmental activities	14,915,297	733,628	1,844,336	758,272	(11,579,061)	-	(11,579,061)
Business-type activities:							
Wastewater	7,890,927	5,908,088	-	-	-	(1,982,839)	(1,982,839)
Total business-type activities	7,890,927	5,908,088	-	-	-	(1,982,839)	(1,982,839)
Total primary government	\$ 22,806,224	\$ 6,641,716	\$ 1,844,336	\$ 758,272			
General Revenues:							
Taxes:							
Sales tax					10,400,704	4,478,074	14,878,778
Franchise tax					738,631	-	738,631
Auto fee in lieu tax (unrestricted)					508,519	-	508,519
Bed tax fee in lieu (unrestricted)					500,968	-	500,968
State sales tax (unrestricted)					873,126	-	873,126
State sales taxes - revenue sharing (unrestricted)					1,118,082	-	1,118,082
Unrestricted investment earnings					255,995	126,548	382,543
Gain on sale of capital assets					22,890	-	22,890
Other					141,297	-	141,297
Transfers					83,626	(83,626)	-
Total general revenues & transfers					14,643,838	4,520,996	19,164,834
Change in net position					3,064,777	2,538,157	5,602,934
Net position - beginning					43,146,482	66,061,120	109,207,602
Net position - ending					\$ 46,211,259	\$ 68,599,277	\$ 114,810,536

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

CITY OF SEDONA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 14,739,147	\$ 61,106	\$ 3,018,508	\$ 4,726,117	\$ 22,544,878
Receivables:					
Taxes	-	-	-	30,857	30,857
Other	793,477	-	-	-	793,477
Intergovernmental	1,504,227	75,070	108,606	37,717	1,725,620
Restricted cash and investments	1,626,131	-	-	-	1,626,131
Total assets	\$ 18,662,982	\$ 136,176	\$ 3,127,114	\$ 4,794,691	\$ 26,720,963
Liabilities					
Accounts payable	\$ 520,197	\$ 136,176	\$ 598,892	\$ 105,633	\$ 1,360,898
Accrued wages and benefits	263,347	-	-	-	263,347
Unearned revenue	23,556	-	104,363	245,174	373,093
Total liabilities	807,100	136,176	703,255	350,807	1,997,338
Deferred Inflows of Resources					
Unavailable revenue - taxes	342,709	-	-	30,857	373,566
Total deferred inflows of resources	342,709	-	-	30,857	373,566
Fund Balances					
Restricted for:					
Public safety	-	-	-	126,848	126,848
Community services	-	-	-	1,163,701	1,163,701
Capital outlay	1,626,131	-	2,423,859	3,055,871	7,105,861
Committed to:					
Community services	-	-	-	66,607	66,607
Unassigned	15,887,042	-	-	-	15,887,042
Total fund balances	17,513,173	-	2,423,859	4,413,027	24,350,059
Total liabilities, deferred inflows of of resources, and fund balances	\$ 18,662,982	\$ 136,176	\$ 3,127,114	\$ 4,794,691	\$ 26,720,963

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, 2014

Total governmental fund balances	\$	24,350,059
<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	\$	53,070,159
Less accumulated depreciation		<u>(20,643,666)</u>
		32,426,493
<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	\$	(10,674,700)
Deferred amount on refunding		123,400
Bond premiums		(10,142)
Compensated absences		<u>(377,417)</u>
		(10,938,859)
<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>373,566</u>
Total net position of governmental activities	\$	<u><u>46,211,259</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, 2014

REVENUES	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 10,950,872	\$ -	\$ -	\$ 254,753	\$ 11,205,625
Licenses, permits and fees	466,937	-	-	-	466,937
Intergovernmental revenue	3,470,819	780,913	910,033	43,782	5,205,547
Contributions/donations	-	-	-	23,070	23,070
Charges for services	99,231	-	-	-	99,231
Fines and forfeitures	134,164	-	-	-	134,164
Impact fees	-	-	-	450,798	450,798
Interest	220,586	-	35,409	47,103	303,098
Other revenues	193,069	-	60,733	-	253,802
Total revenues	<u>15,535,678</u>	<u>780,913</u>	<u>1,006,175</u>	<u>819,506</u>	<u>18,142,272</u>
EXPENDITURES					
Current:					
General government	4,950,453	-	-	-	4,950,453
Public safety	3,563,341	-	-	46,337	3,609,678
Public works/Streets	1,842,845	1,799,340	-	-	3,642,185
Economic development	924,595	-	-	6,425	931,020
Community services	331,091	-	-	58,329	389,420
Capital outlay	-	-	3,348,961	988,600	4,337,561
Debt service:					
Principal	346,889	-	-	-	346,889
Interest and fiscal charges	526,321	-	-	-	526,321
Bond issue costs	34,699	-	-	-	34,699
Total expenditures	<u>12,520,234</u>	<u>1,799,340</u>	<u>3,348,961</u>	<u>1,099,691</u>	<u>18,768,226</u>
Excess of revenues					
Over (Under) Expenditures	<u>3,015,444</u>	<u>(1,018,427)</u>	<u>(2,342,786)</u>	<u>(280,185)</u>	<u>(625,954)</u>
Other Financing Sources (Uses):					
Debt issued	1,879,700	-	-	-	1,879,700
Payment to refunded bond escrow agent	(1,845,000)	-	-	-	(1,845,000)
Transfers out	-	-	(1,136,498)	-	(1,136,498)
Transfers in	167,253	1,018,427	-	34,444	1,220,124
Total other financing Sources (Uses)	<u>201,953</u>	<u>1,018,427</u>	<u>(1,136,498)</u>	<u>34,444</u>	<u>118,326</u>
Net change in fund balances	3,217,397	-	(3,479,284)	(245,741)	(507,628)
Fund balances, beginning of year	14,295,776	-	5,903,143	4,658,768	24,857,687
Fund balances, end of year	<u>\$ 17,513,173</u>	<u>\$ -</u>	<u>\$ 2,423,859</u>	<u>\$ 4,413,027</u>	<u>\$ 24,350,059</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, 2014

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

Net change in fund balances - total governmental funds		\$ (507,628)
<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	\$ 5,258,613	
Depreciation expense	<u>(1,722,841)</u>	3,535,772
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount of current year deferrals of sales tax audit receivables and deferred contributions.</p>		
		(245,822)
<p>The issuance of long-term debt (e.g., bonds, leases) provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net position.</p>		
		(1,879,700)
<p>Repayment of long-term debt (e.g., bonds, leases) principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		2,191,889
<p>Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		(27,596)
<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		(157,496)
Amortization of bond premium		<u>155,358</u>
Change in net position of governmental activities		<u>\$ 3,064,777</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
City sales tax	\$ 7,291,808	\$ 7,291,808	\$ 7,996,706	\$ 704,898
Bed tax	1,580,933	1,580,933	2,097,290	516,357
Recovery of sales taxes - audit	92,700	92,700	118,245	25,545
Franchise taxes	742,073	742,073	738,631	(3,442)
Total taxes	<u>9,707,514</u>	<u>9,707,514</u>	<u>10,950,872</u>	<u>1,243,358</u>
Licenses and permits	322,651	322,651	466,937	144,286
Intergovernmental revenues:				
State sales tax	866,754	866,754	873,126	6,372
Auto lieu tax	521,935	521,935	508,519	(13,416)
Urban revenue sharing	1,119,108	1,119,108	1,118,082	(1,026)
Fee-in lieu taxes	304,500	304,500	905,468	600,968
Grant revenues	-	-	65,624	65,624
Total intergovernmental	<u>2,812,297</u>	<u>2,812,297</u>	<u>3,470,819</u>	<u>658,522</u>
Contributions/donations	5,000	5,000	-	(5,000)
Charges for services:				
Parks and recreation	59,447	59,447	57,697	(1,750)
Police	21,300	21,300	41,534	20,234
Total charges for services	<u>80,747</u>	<u>80,747</u>	<u>99,231</u>	<u>18,484</u>
Fines and forfeitures	254,603	254,603	134,164	(120,439)
Interest earnings	201,114	201,114	220,586	19,472
Other revenues:				
Tax audits - interest/penalty	47,995	47,995	79,297	31,302
Miscellaneous revenues	139,901	139,901	113,772	(26,129)
Total other revenues	<u>187,896</u>	<u>187,896</u>	<u>193,069</u>	<u>5,173</u>
Total revenues	<u>13,571,822</u>	<u>13,571,822</u>	<u>15,535,678</u>	<u>1,963,856</u>
Expenditures				
Current:				
General government:				
City clerk	239,306	239,306	226,818	12,488
City council	53,840	53,840	53,561	279
City manager	698,982	698,982	696,483	2,499
Human resources	181,238	181,238	178,106	3,132
Financial services	473,470	473,470	448,475	24,995
Information technology	738,277	747,277	713,547	33,730
Legal	460,686	460,686	458,932	1,754
General services	2,180,844	2,137,844	2,174,531	(36,687)
Total general government	<u>5,026,643</u>	<u>4,992,643</u>	<u>4,950,453</u>	<u>42,190</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	3,517,752	3,517,752	3,292,220	225,532
Municipal court	312,344	312,344	271,121	41,223
Total public safety	<u>3,830,096</u>	<u>3,830,096</u>	<u>3,563,341</u>	<u>266,755</u>
Public works:				
Public works	1,845,964	1,845,964	1,842,845	3,119
Total public works	<u>1,845,964</u>	<u>1,845,964</u>	<u>1,842,845</u>	<u>3,119</u>
Economic development:				
Community development	1,146,286	1,146,286	924,595	221,691
Total economic development	<u>1,146,286</u>	<u>1,146,286</u>	<u>924,595</u>	<u>221,691</u>
Community services:				
Parks and recreation	359,249	350,249	331,091	19,158
Total community services	<u>359,249</u>	<u>350,249</u>	<u>331,091</u>	<u>19,158</u>
Debt service:				
Principal	344,945	344,945	346,889	(1,944)
Interest	526,321	526,321	526,321	-
Bond issuance costs	-	-	34,699	(34,699)
Total expenditures	<u>13,079,504</u>	<u>13,036,504</u>	<u>12,520,234</u>	<u>516,270</u>
Excess of revenues over expenditures	<u>492,318</u>	<u>535,318</u>	<u>3,015,444</u>	<u>2,480,126</u>
Other financing sources (uses)				
Refunding bonds issued	-	-	1,879,700	1,879,700
Payment to refunded bond escrow agent	-	-	(1,845,000)	(1,845,000)
Transfers out	(1,540,993)	(1,540,993)	-	1,540,993
Transfers in	170,711	170,711	167,253	(3,458)
Total other financing sources and (uses)	<u>(1,370,282)</u>	<u>(1,370,282)</u>	<u>201,953</u>	<u>1,572,235</u>
Net change in fund balance	(877,964)	(834,964)	3,217,397	4,052,361
Fund balance - beginning	<u>14,295,776</u>	<u>14,295,776</u>	<u>14,295,776</u>	<u>-</u>
Fund balance - ending	<u>\$ 13,417,812</u>	<u>\$ 13,460,812</u>	<u>\$ 17,513,173</u>	<u>\$ 4,052,361</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 707,584	\$ 707,584	\$ 780,913	\$ 73,329
Interest	17,500	17,500	-	(17,500)
Total revenues	<u>725,084</u>	<u>725,084</u>	<u>780,913</u>	<u>55,829</u>
EXPENDITURES				
Public works/Streets:				
Services, supplies and other	<u>2,266,077</u>	<u>2,266,077</u>	<u>1,799,340</u>	<u>466,737</u>
Total expenditures	<u>2,266,077</u>	<u>2,266,077</u>	<u>1,799,340</u>	<u>466,737</u>
Excess of revenues				
Over (Under) expenditures	<u>(1,540,993)</u>	<u>(1,540,993)</u>	<u>(1,018,427)</u>	<u>522,566</u>
Other Financing Sources (Uses):				
Transfers in	<u>1,540,993</u>	<u>1,540,993</u>	<u>1,018,427</u>	<u>(522,566)</u>
Total other financing Sources (Uses)	<u>1,540,993</u>	<u>1,540,993</u>	<u>1,018,427</u>	<u>(522,566)</u>
Net change in fund balance	-	-	-	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

CITY OF SEDONA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-Type Activities Wastewater Enterprise Fund
Assets	
Current Assets:	
Cash	\$ 18,232,665
Receivables (net of allowance)	
Accounts receivable	849,376
Restricted cash	30,985
Total current assets	<u>19,113,026</u>
Noncurrent Assets:	
Capital Assets (net of depreciation):	
Land	11,159,413
Construction in progress	1,188,470
Wastewater system	82,420,838
Machinery, equipment and vehicles	494,935
Total capital assets	<u>95,263,656</u>
Total noncurrent assets	<u>95,263,656</u>
Total Assets	<u><u>114,376,682</u></u>
 Deferred Outflows of Resources	
Deferred charge on refunding	368,884
Total deferred outflows of resources	<u>368,884</u>
 Liabilities	
Current liabilities:	
Accounts payable	295,288
Compensated absences	54,736
Utility deposits	30,985
Unearned revenue	811,833
Bonds payable - current portion	4,140,000
Total current liabilities	<u>5,332,842</u>
Noncurrent liabilities:	
Interest payable	7,619,933
Bonds payable, net of current portion	<u>33,193,514</u>
Total noncurrent liabilities	<u>40,813,447</u>
Total liabilities	<u>46,146,289</u>
 Net Position	
Net investment in capital assets	58,299,026
Unrestricted	10,300,251
Total net position	<u><u>\$ 68,599,277</u></u>

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

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Business-Type Activities Wastewater Enterprise Fund
Operating Revenues	
Charges for services	\$ 5,407,322
Other income	16,666
Total operating revenues	<u>5,423,988</u>
Operating Expenses	
Wastewater Administration:	
Salaries, wages and benefits	683,697
Services supplies and other	257,776
Wastewater Construction:	
Non-capitalized construction costs	115,278
Wastewater Treatment Plant:	
Salaries, wages and benefits	610,849
Services supplies and other	1,450,554
Depreciation	2,532,240
Total operating expenses	<u>5,650,394</u>
Operating income (loss)	<u>(226,406)</u>
Non-operating Revenues (Expenses)	
Taxes	4,296,385
Recovery of sales taxes	181,689
Capacity fees	484,100
Investment earnings	126,548
Interest on long-term debt	(2,172,710)
Issuance costs	(67,823)
Total non-operating revenue (expense)	<u>2,848,189</u>
Income before contributions and transfers	2,621,783
Transfers out	<u>(83,626)</u>
Change in net position	2,538,157
Net position, beginning of year	<u>66,061,120</u>
Net position, end of year	<u><u>\$ 68,599,277</u></u>

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, 2014

	Business-Type Activities Wastewater Enterprise Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 5,262,810
Cash received from customers, other	24,946
Cash paid to suppliers	(1,920,510)
Cash paid to employees	(1,301,535)
	<u>2,065,711</u>
Cash Flows From Noncapital and Related	
Financing Activities:	
Tax receipts	4,478,074
Transfers	(83,626)
	<u>4,394,448</u>
Cash Flows From Capital and Related	
Financing Activities:	
Proceeds from long term debt	7,905,300
Purchase of capital assets	(1,024,961)
Bond issue costs	(67,823)
Principal paid on long term debt	(11,835,000)
Interest paid	(1,654,107)
Capacity fees and other	473,601
	<u>(6,202,990)</u>
Cash Flows From Investing Activities:	
Interest on investments	126,548
	<u>126,548</u>
Net change in cash and cash equivalents	383,717
Cash and cash equivalents, including temporarily restricted cash, beginning of year	17,879,933
	<u>17,879,933</u>
Cash and cash equivalents, including temporarily restricted cash , end of year	\$ 18,263,650
 Reconciliation of Operating Income to Net	
Cash Flows from Operating Activities:	
Net operating income/(loss)	\$ (226,406)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	2,532,240
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	(144,512)
Increase/(Decrease) in payables	(96,902)
Increase/(Decrease) in customer deposits	8,280
Increase/(Decrease) in accrued wages and compensation	(6,989)
	<u>(6,989)</u>
Net cash flows from operating activities	\$ 2,065,711

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 1. Summary of Significant Accounting Policies

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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 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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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 or comprise less than 5% of the total investment portfolio; 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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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, 2014

Note 1. Summary of Significant Accounting Policies, Continued

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 is 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, 2014

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

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.

Note 3. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 3. Stewardship, Compliance, and Accountability, Continued

4. The City follows a voter-approved alternative expenditure limitation that was adopted in 2008 and extended on March 13, 2012. The alternative expenditure limitation was most recently extended on August 26, 2014.
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, 2014.

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, 2014, if any.

Highway User Revenue Funds

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 4. Deposits and Investments

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

Cash and cash equivalents	\$ 40,777,543
Restricted cash and cash equivalents	<u>1,657,116</u>
	<u><u>\$ 42,434,659</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, 2014, none of the City's bank balance of \$15,379,990 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, 2014

Note 4 . Deposits and Investments, Continued

As of June 30, 2014 the City had the following deposits and investments:

	Fair Value	Credit Rating	Weighted Average Maturity
Cash on deposit	\$ 14,514,317	N/A	N/A
Cash on hand	6,871	N/A	N/A
Local Governments Investment Pool	27,913,471	(1)	(2)
	\$ 42,434,659		

- (1) The City’s investment in the State Treasurer’s Investment Pool #5 was rated AAAf/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 three years 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, 2014:

General Fund:	
Unspent bond proceeds	\$ 1,626,131
Wastewater Fund - Customer Deposits	30,985
	\$ 1,657,116

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 6. Capital Assets

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

Governmental Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 7,586,054	\$ 671,980	\$ -	\$ 8,258,034
Construction in progress	958,462	3,143,865	(2,893,316)	1,209,011
Total capital assets, not being depreciated	<u>8,544,516</u>	<u>3,815,845</u>	<u>(2,893,316)</u>	<u>9,467,045</u>
Capital assets, being depreciated:				
Land improvements	6,233,765	297,063	-	6,530,828
Buildings and improvements	6,791,633	437,068	-	7,228,701
Machinery, equipment and vehicles	5,645,247	254,747	(203,465)	5,696,529
Infrastructure	20,799,850	3,347,206	-	24,147,056
Total capital assets, being depreciated	<u>39,470,495</u>	<u>4,336,084</u>	<u>(203,465)</u>	<u>43,603,114</u>
Less accumulated depreciation for:				
Land improvements	(1,556,188)	(265,626)	-	(1,821,814)
Buildings and improvements	(2,545,722)	(251,709)	-	(2,797,431)
Machinery, equipment and vehicles	(4,714,118)	(345,790)	203,465	(4,856,443)
Infrastructure	(10,308,262)	(859,716)	-	(11,167,978)
Total accumulated depreciation	<u>(19,124,290)</u>	<u>(1,722,841)</u>	<u>203,465</u>	<u>(20,643,666)</u>
Total capital assets, being depreciated, net	<u>20,346,205</u>	<u>2,613,243</u>	<u>-</u>	<u>22,959,448</u>
Governmental activities capital assets, net	<u>\$ 28,890,721</u>	<u>\$ 6,429,088</u>	<u>\$ (2,893,316)</u>	<u>\$ 32,426,493</u>

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

Governmental Activities:	
General government	\$ 380,477
Public safety	190,360
Public works/streets	1,095,654
Community services	56,350
Total depreciation expense - governmental activities	<u>\$ 1,722,841</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 6. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2013	Additions	Deletions	Balance 6/30/2014
Capital assets not being depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Construction in progress	567,096	973,691	(352,317)	1,188,470
Total capital assets, not being depreciated	<u>11,726,509</u>	<u>973,691</u>	<u>(352,317)</u>	<u>12,347,883</u>
Capital assets being depreciated:				
Wastewater system	113,191,571	-	-	113,191,571
Machinery, equipment and vehicles	4,706,198	403,587	(30,031)	5,079,754
Total capital assets, being depreciated	<u>117,897,769</u>	<u>403,587</u>	<u>(30,031)</u>	<u>118,271,325</u>
Less accumulated depreciation for:				
Wastewater system	(28,404,721)	(2,366,012)	-	(30,770,733)
Machinery, equipment and vehicles	(4,448,622)	(166,228)	30,031	(4,584,819)
Total accumulated depreciation	<u>(32,853,343)</u>	<u>(2,532,240)</u>	<u>30,031</u>	<u>(35,355,552)</u>
Total capital assets, being depreciated, net	<u>85,044,426</u>	<u>(2,128,653)</u>	<u>-</u>	<u>82,915,773</u>
Business-type activities capital assets, net	<u>\$ 96,770,935</u>	<u>\$ (1,154,962)</u>	<u>\$ (352,317)</u>	<u>\$ 95,263,656</u>

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

Business-Type Activities:	
Wastewater	<u>\$ 2,532,240</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 7. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

	Balance 6/30/2013	Additions	Retirements	Balance 6/30/2014	Current Portion
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 10,970,000	\$ 1,879,700	\$ (2,175,000)	\$ 10,674,700	\$ 345,000
Deferred Amounts:					
Premium	165,500	-	(155,358)	10,142	-
Total Revenue Bonds	<u>11,135,500</u>	<u>1,879,700</u>	<u>(2,330,358)</u>	<u>10,684,842</u>	<u>345,000</u>
Other Liabilities:					
Capital leases	16,889	-	(16,889)	-	19,461
Compensated absences	349,821	165,784	(138,188)	377,417	159,850
Total Other Liabilities	<u>366,710</u>	<u>165,784</u>	<u>(155,077)</u>	<u>377,417</u>	<u>179,311</u>
Total Governmental Long-Term Debt	<u>\$ 11,502,210</u>	<u>\$ 2,045,484</u>	<u>\$ (2,485,435)</u>	<u>\$ 11,062,259</u>	<u>\$ 524,311</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 39,900,000	\$ 7,905,300	\$ (11,835,000)	\$ 35,970,300	\$ 4,140,000
Deferred Amounts:					
Premium	1,989,499	-	(626,285)	1,363,214	-
Total Revenue Bonds	<u>41,889,499</u>	<u>7,905,300</u>	<u>(12,461,285)</u>	<u>37,333,514</u>	<u>4,140,000</u>
Other Liabilities:					
Compensated absences	61,725	15,804	(22,793)	54,736	26,369
Total Other Liabilities	<u>61,725</u>	<u>15,804</u>	<u>(22,793)</u>	<u>54,736</u>	<u>26,369</u>
Total Business-Type Long-Term Debt	<u>\$ 41,951,224</u>	<u>\$ 7,921,104</u>	<u>\$ (12,484,078)</u>	<u>\$ 37,388,250</u>	<u>\$ 4,166,369</u>
Total Long-Term Liabilities	<u>\$ 53,453,434</u>	<u>\$ 9,966,588</u>	<u>\$ (14,969,513)</u>	<u>\$ 48,450,509</u>	<u>\$ 4,690,680</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, 2014

Note 7. Long-Term Debt, Continued

The following is a listing of revenue obligation bonds outstanding as of June 30, 2014:

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 Refunding Obligations, Series 2014; original issue \$1.8797 million governmental, \$7.9053 million business-type, interest at .66% maturing July 1, 2019, used to refund Excise Tax Revenue Bonds, Second Series 2004.	
Principal balance outstanding - Governmental	1,879,700
Principal balance outstanding - Business-type	7,905,300
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	3,075,000
Total Revenue Bonds Payable	\$ 46,645,000
Classification by type:	
Governmental-type Activities	\$ 10,674,700
Business-type Activities	35,970,300
Total Revenue Bonds Payable	\$ 46,645,000

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

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
2015	\$ 345,000	\$ 418,607	\$ 4,140,000	\$ 1,080,340
2016	345,000	414,986	4,575,000	1,014,465
2017	384,699	412,708	4,600,300	940,001
2018	1,130,000	410,169	3,875,000	785,213
2019	1,135,001	378,830	4,080,000	581,775
2020-2024	4,260,000	1,344,025	6,305,000	17,133,875
2025-2027	3,075,000	280,800	8,395,000	570,825
Totals	<u>\$ 10,674,700</u>	<u>\$ 3,660,125</u>	<u>\$ 35,970,300</u>	<u>\$ 22,106,494</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	\$ 6,482,729
Total excise taxes current year	\$ 14,390,382

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, 2014, the amount of defeased debt outstanding but removed from the City's financial statements was \$32,160,000.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 8. Interfund Receivables, Payables and Transfers

As of June 30, 2014, 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, 2014 are as follows:

	Transfers in:			Total
	General Fund	Highway Users Revenue Fund	Nonmajor Governmental Funds	
Transfers out:				
General Fund	\$ -	\$ -	\$ -	\$ -
Capital Improvement Fund	83,627	1,018,427	34,444	1,136,498
Wastewater Fund	83,626	-	-	83,626
Total	<u>\$ 167,253</u>	<u>\$ 1,018,427</u>	<u>\$ 34,444</u>	<u>\$ 1,220,124</u>

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

Note 9. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, a public entity risk pool currently operating as a common risk management and insurance and workers' compensation program for approximately 73 members. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant insurance coverage reduction in insurance coverage occurred during the year and 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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 10. Retirement and Pension Plans

Arizona State Retirement System (ASRS)

Plan Description - The City contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix AZ 85067-3910 or by calling (602) 240-2002 or (800) 621-3778, or by accessing the website at www.azasrs.gov

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rate. For the current fiscal year, active plan members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.3 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 (10.70 percent for retirement, 0.60 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:

<u>Year Ended</u> <u>June 30,</u>	<u>Retirement</u> <u>Fund</u>	<u>Health Benefit</u> <u>Supplement Fund</u>	<u>Long-Term</u> <u>Disability Fund</u>
2012	403,982	25,786	9,823
2013	492,528	31,233	11,532
2014	427,084	23,949	9,579

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 10. Retirement and Pension Plans, Continued

Funding Policy - For the current fiscal year, active PSPRS members were required by statute to contribute 7.65 percent of the members' covered compensation, and the City was required to contribute at the actuarially determined rate of 18.52 percent of covered compensation. The health insurance premium portion of the contribution rate was actuarially set at 1.39 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 contribution requirements for the year ended June 30, 2014 were established by the June 30, 2012 actuarial valuations using the entry age normal method. The actuarial assumptions include (a) 8.0 percent investment rate of return and (b) projected salary increases at 5.0 to 9.0 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 amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 24 years for unfunded actuarial accrued liability and 20 years for excess.

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

Annual Pension/OPEB Cost - During the year ended June 30, 2014 the City's annual pension cost of \$245,185 and the annual OPEB cost of \$14,179 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	2012	209,300	100%	-
	2013	209,172	100%	-
	2014	245,185	100%	-
Health Insurance	2012	21,952	100%	-
	2013	15,282	100%	-
	2014	14,179	100%	-

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2014

Note 10. Retirement and Pension Plans, Continued

Funded Status and Funding Progress - The funded status of the plan as of June 30, 2014 is as follows:

	Retirement	Insurance Subsidy
Actuarial accrued liability (AAL)	\$ 8,846,249	\$ 140,876
Actuarial value of plan assets	5,247,551	247,352
Unfunded actuarial accrued liability (UAAL)	\$ 3,598,698	\$ (106,476)
Funded ratio (actuarial value of plan assets/AAL)	59.3%	175.6%
Covered payroll (active plan members)	\$ 1,651,848	\$ 1,651,848
UAAL as a percentage of covered payroll	217.9%	-6.4%

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

Note 11. Contingent Liabilities and Commitments

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney with respect to such litigation, such matters will not have a material adverse effect on the City's financial position at June 30, 2014.

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

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of Funding Progress
PSPRS

An analysis of the progress of the Public Plan (PSPRS) from June 30, 2009 through June 30, 2014, based on actuarial valuations follows:

	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	[(b)-(a)] / (c)
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%
2014	5,247,551	8,846,249	3,598,698	59.3%	1,651,848	217.9%

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
Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	[(b)-(a)] / (c)
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%
2014	247,352	140,876	(106,476)	175.6%	1,651,848	0.0%

Health insurance subsidy payment reported for fiscal year 2014: \$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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 325,242	\$ 325,242	\$ 910,033	\$ 584,791
Interest	41,817	41,817	35,409	(6,408)
Other	-	-	60,733	60,733
Total revenues	<u>367,059</u>	<u>367,059</u>	<u>1,006,175</u>	<u>639,116</u>
EXPENDITURES				
Capital outlay	<u>4,669,302</u>	<u>4,703,301</u>	<u>3,348,961</u>	<u>1,354,340</u>
Total expenditures	<u>4,669,302</u>	<u>4,703,301</u>	<u>3,348,961</u>	<u>1,354,340</u>
Excess of revenues				
Over (Under) expenditures	<u>(4,302,243)</u>	<u>(4,336,242)</u>	<u>(2,342,786)</u>	<u>1,993,456</u>
Other Financing Sources (Uses):				
Transfers out	(149,606)	(149,606)	(1,136,498)	(986,892)
Transfers in	<u>822,500</u>	<u>822,500</u>	<u>-</u>	<u>(822,500)</u>
Total other financing Sources (Uses)	<u>672,894</u>	<u>672,894</u>	<u>(1,136,498)</u>	<u>(1,809,392)</u>
Net change in fund balances	(3,629,349)	(3,663,348)	(3,479,284)	184,064
Fund balance, beginning of year	<u>5,903,143</u>	<u>5,903,143</u>	<u>5,903,143</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,273,794</u>	<u>\$ 2,239,795</u>	<u>\$ 2,423,859</u>	<u>\$ 184,064</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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 5,922,035	\$ 5,922,035	\$ 5,407,322	\$ (514,713)
Capacity fees	101,500	101,500	484,100	382,600
Taxes	3,926,358	3,926,358	4,296,385	370,027
Recovery of sales taxes	84,460	84,460	181,689	97,229
Investment earnings	175,598	175,598	126,548	(49,050)
Other income	11,629	11,629	16,666	5,037
Total revenues	10,221,580	10,221,580	10,512,710	291,130
Expenses				
Wastewater Administration:				
Salaries, wages and benefits	632,828	632,828	683,697	(50,869)
Services supplies and other	290,990	290,990	257,776	33,214
Wastewater Construction	2,692,820	2,692,820	1,140,239	1,552,581
Wastewater Treatment Plant:				
Salaries, wages and benefits	682,663	682,663	610,849	71,814
Services supplies and other	1,842,323	1,842,323	1,450,553	391,770
Debt service	6,077,237	6,077,237	14,007,710	(7,930,473)
Total expenses	12,218,861	12,218,861	18,150,824	(5,931,963)
Excess (deficiency) of revenues over expenses	(1,997,281)	(1,997,281)	(7,638,114)	(5,640,833)
Other Financing Sources (Uses)				
Debt issues	-	-	7,905,300	7,905,300
Transfers out	(85,355)	(85,355)	(83,627)	1,728
Total other financing sources (uses)	(85,355)	(85,355)	7,821,673	7,907,028
Change in net position	(2,082,636)	(2,082,636)	183,559	2,266,195
Net position, beginning of year	30,866,086	30,866,086	30,866,086	-
Net position, end of year	\$ 28,783,450	\$ 28,783,450	\$ 31,049,645	\$ 2,266,195

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

Net position, end of year, budgetary basis	31,049,645
Adjustments to reconcile to net position:	
Adjustment for differences reported in previous years	35,195,034
Adjustments for current year:	
Depreciation	(2,532,240)
Capital outlay	1,024,961
Principal paid on long term debt	11,835,000
Debt issues	(7,905,300)
Issuance costs	(67,823)
Net position, end of year	\$ 68,599,277

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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, 2014

	Special Revenue				Capital Project		Total Nonmajor Governmental Funds
	Grants	Summit II CFD	Fairfield CFD	Arts	Development Impact Fee	Information Systems	
ASSETS							
Cash	\$ 365,233	\$ 222,044	\$ 941,657	\$ 73,080	\$ 3,124,103	\$ -	\$ 4,726,117
Receivables:							
Taxes	-	-	30,857	-	-	-	30,857
Intergovernmental	37,717	-	-	-	-	-	37,717
Total assets	<u>\$ 402,950</u>	<u>\$ 222,044</u>	<u>\$ 972,514</u>	<u>\$ 73,080</u>	<u>\$ 3,124,103</u>	<u>\$ -</u>	<u>\$ 4,794,691</u>
LIABILITIES							
Liabilities:							
Accounts payable	\$ 30,928	\$ -	\$ -	\$ 6,473	\$ 68,232	\$ -	\$ 105,633
Unearned revenues	245,174	-	-	-	-	-	245,174
Total liabilities	<u>276,102</u>	<u>-</u>	<u>-</u>	<u>6,473</u>	<u>68,232</u>	<u>-</u>	<u>350,807</u>
Deferred Inflows of Resources							
Unavailable revenue - taxes	-	-	30,857	-	-	-	30,857
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>30,857</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,857</u>
Fund Balances:							
Restricted for:							
Public safety	126,848	-	-	-	-	-	126,848
Community services	-	222,044	941,657	-	-	-	1,163,701
Capital outlay	-	-	-	-	3,055,871	-	3,055,871
Committed to:							
Community services	-	-	-	66,607	-	-	66,607
Total fund balances	<u>126,848</u>	<u>222,044</u>	<u>941,657</u>	<u>66,607</u>	<u>3,055,871</u>	<u>-</u>	<u>4,413,027</u>
Total liabilities, deferred inflows of of resources, and fund balances	<u>\$ 402,950</u>	<u>\$ 222,044</u>	<u>\$ 972,514</u>	<u>\$ 73,080</u>	<u>\$ 3,124,103</u>	<u>\$ -</u>	<u>\$ 4,794,691</u>

CITY OF SEDONA, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue			Capital Project		Total Nonmajor Governmental Funds	
	Grants	Summit II CFD	Fairfield CFD	Arts	Development Impact Fee		Information Systems
REVENUES:							
Taxes	\$ -	\$ 160,677	\$ 94,076	\$ -	\$ -	\$ -	\$ 254,753
Intergovernmental	43,782	-	-	-	-	-	43,782
Contributions/donations	23,070	-	-	-	-	-	23,070
Impact fees	-	-	-	-	450,798	-	450,798
Investment earnings	-	226	1,764	249	44,864	-	47,103
	<u>66,852</u>	<u>160,903</u>	<u>95,840</u>	<u>249</u>	<u>495,662</u>	<u>-</u>	<u>819,506</u>
Total revenues							
	66,852	160,903	95,840	249	495,662	-	819,506
EXPENDITURES:							
Current:							
Public safety	46,337	-	-	-	-	-	46,337
Economic development	6,425	-	-	-	-	-	6,425
Community services	47,074	-	-	11,255	-	-	58,329
Capital outlay	-	-	-	-	988,600	-	988,600
	<u>99,836</u>	<u>-</u>	<u>-</u>	<u>11,255</u>	<u>988,600</u>	<u>-</u>	<u>1,099,691</u>
Total expenditures							
	99,836	-	-	11,255	988,600	-	1,099,691
Excess of revenues							
Over (under) expenditures	(32,984)	160,903	95,840	(11,006)	(492,938)	-	(280,185)
Other Financing Sources (Uses):							
Transfers in	-	-	-	30,553	-	3,891	34,444
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,553</u>	<u>-</u>	<u>3,891</u>	<u>34,444</u>
Net change in fund balances	(32,984)	160,903	95,840	19,547	(492,938)	3,891	(245,741)
Fund balances, beginning of year	159,832	61,141	845,817	47,060	3,548,809	(3,891)	4,658,768
Fund balances, end of year	<u>\$ 126,848</u>	<u>\$ 222,044</u>	<u>\$ 941,657</u>	<u>\$ 66,607</u>	<u>\$ 3,055,871</u>	<u>\$ -</u>	<u>\$ 4,413,027</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental revenue	\$ 1,955,056	\$ 1,955,056	\$ 43,782	\$ (1,911,274)
Contributions/donations	10,000	10,000	23,070	13,070
Total revenues	<u>1,965,056</u>	<u>1,965,056</u>	<u>66,852</u>	<u>(1,898,204)</u>
EXPENDITURES				
Current:				
Public safety	313,056	313,056	46,337	266,719
Public works/streets	890,000	890,000	-	890,000
Economic development	644,000	644,000	6,425	637,575
Community services	<u>118,000</u>	<u>118,000</u>	<u>47,074</u>	<u>70,926</u>
Total expenditures	<u>1,965,056</u>	<u>1,965,056</u>	<u>99,836</u>	<u>1,865,220</u>
Excess of revenues				
Over (Under) expenditures	-	-	(32,984)	(32,984)
Fund balance, beginning of year	<u>159,832</u>	<u>159,832</u>	<u>159,832</u>	<u>-</u>
Fund balance, end of year	<u>\$ 159,832</u>	<u>\$ 159,832</u>	<u>\$ 126,848</u>	<u>\$ (32,984)</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 40,000	\$ 40,000	\$ 160,677	\$ 120,677
Interest	2,987	2,987	226	(2,761)
Total revenues	<u>42,987</u>	<u>42,987</u>	<u>160,903</u>	<u>(2,761)</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues Over (Under) expenditures	42,987	42,987	160,903	117,916
Fund balance, beginning of year	<u>61,141</u>	<u>61,141</u>	<u>61,141</u>	<u>-</u>
Fund balance, end of year	<u>\$ 104,128</u>	<u>\$ 104,128</u>	<u>\$ 222,044</u>	<u>\$ 117,916</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 134,000	\$ 134,000	\$ 94,076	\$ (39,924)
Interest	2,432	2,432	1,764	(668)
Total revenues	<u>136,432</u>	<u>136,432</u>	<u>95,840</u>	<u>(40,592)</u>
EXPENDITURES				
Current:				
Public works/streets	600,000	600,000	-	600,000
Community services	<u>170,000</u>	<u>170,000</u>	-	<u>170,000</u>
Total expenditures	<u>770,000</u>	<u>770,000</u>	-	<u>770,000</u>
Excess of revenues				
Over (Under) expenditures	(633,568)	(633,568)	95,840	729,408
Fund balance, beginning of year	<u>845,817</u>	<u>845,817</u>	<u>845,817</u>	-
Fund balance, end of year	<u>\$ 212,249</u>	<u>\$ 212,249</u>	<u>\$ 941,657</u>	<u>\$ 729,408</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 750	\$ 750	\$ 249	\$ (501)
Total revenues	<u>750</u>	<u>750</u>	<u>249</u>	<u>(501)</u>
EXPENDITURES				
Current:				
Community services	<u>65,000</u>	<u>65,000</u>	<u>11,255</u>	<u>53,745</u>
Total expenditures	<u>65,000</u>	<u>65,000</u>	<u>11,255</u>	<u>53,745</u>
Excess of revenues				
Over (Under) expenditures	<u>(64,250)</u>	<u>(64,250)</u>	<u>(11,006)</u>	<u>53,244</u>
Other Financing Sources (Uses):				
Transfers in	<u>64,250</u>	<u>64,250</u>	<u>30,553</u>	<u>(33,697)</u>
Total other financing Sources (Uses)	<u>64,250</u>	<u>64,250</u>	<u>30,553</u>	<u>(33,697)</u>
Net change in fund balance	-	-	19,547	19,547
Fund balance, beginning of year	<u>47,060</u>	<u>47,060</u>	<u>47,060</u>	<u>-</u>
Fund balance, end of year	<u>\$ 47,060</u>	<u>\$ 47,060</u>	<u>\$ 66,607</u>	<u>\$ 19,547</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, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Impact fees	\$ 191,965	\$ 191,965	\$ 450,798	\$ 258,833
Interest	44,494	44,494	44,864	370
Total revenues	<u>236,459</u>	<u>236,459</u>	<u>495,662</u>	<u>259,203</u>
EXPENDITURES				
Capital outlay	<u>1,943,000</u>	<u>1,943,000</u>	<u>988,600</u>	<u>954,400</u>
Total expenditures	<u>1,943,000</u>	<u>1,943,000</u>	<u>988,600</u>	<u>954,400</u>
Excess of revenues Over (Under) expenditures	(1,706,541)	(1,706,541)	(492,938)	1,213,603
Fund balance, beginning of year	<u>3,548,809</u>	<u>3,548,809</u>	<u>3,548,809</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,842,268</u>	<u>\$ 1,842,268</u>	<u>\$ 3,055,871</u>	<u>\$ 1,213,603</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, 2014**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES				
General government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues Over (Under) expenditures	-	-	-	-
Other Financing Sources (Uses):				
Transfers in	<u>-</u>	<u>-</u>	<u>3,891</u>	<u>3,891</u>
Total other financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>3,891</u>	<u>3,891</u>
Net change in fund balance	-	-	3,891	3,891
Fund balance (deficit), beginning of year	<u>(3,891)</u>	<u>(3,891)</u>	<u>(3,891)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (3,891)</u>	<u>\$ (3,891)</u>	<u>\$ -</u>	<u>\$ 3,891</u>

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STATISTICAL SECTION

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

Contents	Page
Financial Trends	65
<i>These schedules contain trend information to help the reader understand how the government’s financial performance and well being have changed over time.</i>	
Revenue Capacity	70
<i>These schedules contain information to help the reader assess the government’s property taxes and the most significant local revenues source, the sales tax.</i>	
Debt Capacity	74
<i>These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.</i>	
Demographic and Economic Information.....	78
<i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.</i>	
Operating Information	81
<i>These schedules contain service and infrastructure data to help the reader understand how the information in the government’s financial report relates to the services the government provides and the activities it performs.</i>	

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

	Fiscal Year									
	<u>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>	<u>2014</u>
Governmental activities										
Invested in capital assets, net of related debt	\$ 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	\$ 21,865,051
Restricted	-	10,154,808	7,469,407	7,688,303	10,987,109	9,929,271	9,048,404	9,015,587	10,514,851	6,770,279
Unrestricted	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	17,575,929
Total governmental activities net assets	\$ 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	\$ 46,211,259
Business-type activities										
Invested in capital assets, net of related debt	\$ 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	\$ 58,299,026
Restricted	1,123,821	1,175,288	1,240,451	587,477	100,818	92,327	-	-	-	-
Unrestricted	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	10,300,251
Total Business-type activities net assets	\$ 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	\$ 68,599,277
Primary government										
Invested in capital assets, net of related debt	\$ 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	\$ 80,164,077
Restricted	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	6,770,279
Unrestricted	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	27,876,180
Total primary government net assets	\$ 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	\$ 114,810,536

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

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

Expenses	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental activities										
General government	\$ 7,025,659	\$ 7,645,680	\$ 7,881,431	\$ 7,600,727	\$ 8,608,913	\$ 7,445,612	\$ 5,688,858	\$ 5,602,556	\$ 5,231,759	\$ 5,314,798
Public safety	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	3,691,142
Highways and streets	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	3,986,709
Economic development									1,834,854	932,919
Community services	497,465	648,177	789,371	1,058,508	1,037,534	815,848	1,357,077	2,004,255	974,564	426,571
Interest on long-term debt	60,907	96,414	256,297	309,469	755,167	636,191	583,175	567,901	559,672	563,158
Total governmental activities expense:	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	14,915,297
Business-type activities										
Wastewater	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	7,890,927
Total business-type activities expense:	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	7,890,927
Total primary government expense:	\$ 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	\$ 22,806,224
Program Revenues										
Governmental Activities										
Charges for services:										
General government	1,138,189	700,352	673,643	687,888	705,542	717,236	189,417	289,510	78,355	89,021
Public safety	14,211	12,282	9,257	52,491	96,472	42,929	200,129	202,465	154,786	134,164
Highways and streets	416,376	292,668	276,348	364,474	200,290	159,839	139,856	27,583	90,065	70,943
Economic development									22,270	381,803
Community services	36,728	30,646	39,557	40,590	103,587	124,140	57,475	64,714	68,367	57,697
Interest on long-term debt	47,620	38,704	26,735	17,340	5,553	-	-	-	-	-
Operating grants and contributions:	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	1,844,336
Capital grants and contributions:	367,035	783,213	523,562	550,975	337,391	426,903	918,037	688,239	779,462	758,272
Total governmental activities program revenues	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	3,336,236
Business-type activities										
Charges for services:										
Wastewater	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	5,908,088
Operating grants and contributions:	-	-	-	-	-	-	-	-	-	-
Capital grants and contributions:	-	-	-	-	-	-	-	-	-	-
Total business-type activities program revenues	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	5,908,088
Total primary government program revenues	\$ 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	\$ 9,244,324

(continued)

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net (expense)/revenue										
Governmental activities:	\$ (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)	\$ (11,579,061)
Business-type activities:	(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)	(1,982,839)
Total primary government net expense:	<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>	<u>\$ (13,561,900)</u>
General Revenues and Other										
Changes in Net Assets										
Governmental activities:										
Taxes:										
Sales taxes	\$ 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	\$ 10,400,704
Special CFD tax	189,610	239,402	248,220	304,252	569,667	393,293	-	-	-	-
Franchise taxes	564,575	591,055	640,752	667,237	661,177	666,326	699,088	713,577	720,455	738,631
State revenue sharing	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	1,118,082
State sales taxes	944,190	1,082,364	1,039,344	1,004,970	870,023	802,470	830,562	783,825	821,056	873,126
Auto-in-lieu	579,030	654,636	603,640	585,027	593,707	551,996	543,380	476,438	483,343	508,519
Bed tax in-lieu								380,270	692,049	500,968
Investment earnings:	446,834	880,958	1,044,373	1,021,475	735,011	533,139	166,085	215,593	127,098	255,995
Other	13,414	62,441	44,178	44,351	244,088	1,405,705	88,974	37,116	64,367	164,187
In Lieu of Fees										
Transfers	130,000	-	-	-	479,856	404,856	-	-	63,842	83,626
Total governmental activities:	<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>	<u>14,643,838</u>
Business-type activities:										
Sales taxes	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	4,478,074
Investment earnings:	638,993	1,048,673	1,493,451	1,423,139	734,783	409,512	134,460	208,284	111,930	126,548
Transfers	(130,000)	-	-	-	(479,856)	(404,856)	-	-	(63,842)	(83,626)
Total business-type activities:	<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>	<u>4,520,996</u>
Total Primary government:	<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>	<u>\$ 19,164,834</u>
Change in Net Asset										
Governmental activities:	\$ 1,693,021	\$ 2,938,305	\$ 1,222,661	\$ 2,159,765	\$ (2,304,657)	\$ (380,595)	\$ 1,259,090	\$ 366,880	\$ (904,799)	\$ 3,064,777
Prior period adjustments										
Restatement adjustment									\$ (219,848)	
Business-type activities:	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	2,538,157
Prior period adjustment										
Restatement adjustment									(336,869)	
Restatement adjustment									(840,379)	
Total primary government:	<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>\$ 179,438</u>	<u>\$ 5,602,934</u>

Note: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2000.

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	-	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Unassigned	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	17,513,173
Total general fund	\$ 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	\$ 17,513,173
All other governmental funds										
Restricted:										
Roads and Highways	\$ 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 *	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	5,479,730
Debt service	351,727	328,012	274,795	225,510	(1,923)	-	-	-	-	-
Other	808,043	935,630	1,162,225	1,388,547	1,810,903	1,010,866	779,272	967,320	1,113,850	1,290,549
Committed for:										
Arts	59,532	68,848	104,162	118,316	142,277	115,108	73,804	21,358	-	66,607
Capital Outlay *	-	-	-	-	-	-	4,394,902	4,443,144	-	-
Assigned for:										
Other	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	\$ 10,558,760	\$ 10,321,886	\$ 7,706,477	\$ 16,795,040	\$ 14,489,358	\$ 12,863,880	\$ 13,517,110	\$ 13,480,089	\$ 10,561,911	\$ 6,836,886

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

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

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

	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	\$ 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	\$ 11,205,625
Intergovernmental	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	5,205,547
Fines and forfeitures	168,953	216,431	324,562	368,785	268,848	269,104	200,129	202,465	154,786	134,164
Licenses and permits	230,797	186,037	192,882	164,807	212,366	207,092	179,555	276,000	334,756	466,937
Charges for services	546,461	144,563	153,751	154,194	161,103	184,458	98,339	125,142	89,118	99,231
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	450,798
Special assessments	252,155	221,518	197,125	203,172	163,266	-	-	-	-	-
Investment earnings:	442,627	877,907	1,037,999	1,021,475	735,012	533,139	221,786	284,730	139,854	303,098
Other	64,271	199,436	45,244	133,662	235,581	506,745	292,300	120,851	521,353	276,872
Total Revenues	\$ 14,475,610	\$ 16,933,081	\$ 16,718,030	\$ 17,259,497	\$ 16,874,620	\$ 16,254,550	\$ 14,165,299	\$ 14,071,683	\$ 16,152,245	\$ 18,142,272
Expenditures										
Current:										
General government	\$ 6,877,663	\$ 7,977,384	\$ 8,292,797	\$ 8,643,505	\$ 8,908,985	\$ 6,993,621	\$ 5,021,720	\$ 5,132,317	\$ 4,664,793	\$ 4,950,453
Public safety	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	3,609,678
Highways and streets	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	3,642,185
Community services	640,865	646,384	807,619	970,037	1,169,314	843,316	1,654,380	1,914,570	1,803,515	389,420
Economic development	-	-	-	-	-	-	1,577,185	1,286,046	974,564	931,020
Capital outlay	-	-	-	-	-	-	-	1,286,046	4,486,413	5,258,613
Principal	200,000	215,000	535,000	550,000	586,753	345,942	362,009	378,130	354,309	346,889
Interest and fiscal charges	60,907	49,161	209,044	262,216	689,685	570,707	562,465	547,193	538,964	561,020
Total expenditures	13,977,871	16,219,887	19,053,445	17,004,858	20,579,446	16,595,650	14,155,972	14,074,531	18,878,570	19,689,278
Revenues over (under) expenditures:	497,739	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)	9,327	(2,848)	(2,726,325)	(1,547,006)
Other finance sources (Uses)										
Proceeds of refunding debt issuance	4,941,446	-	-	-	-	-	-	-	-	1,879,700
Proceeds of long-term debt issuance	-	-	-	8,810,604	114,032	-	-	-	-	-
Payment to refunded debt escrow agent	(5,281,171)	-	-	-	-	-	-	-	-	(1,845,000)
Transfers in	362,337	422,475	467,376	600,874	881,308	1,669,463	316,125	838,373	(793,833)	1,220,124
Transfers out	(232,337)	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)	(316,125)	(838,373)	857,675	(1,136,498)
Total other finance sources (uses)	(209,725)	-	-	8,943,917	593,888	404,856	-	-	63,842	118,326
Net change in fund balances	\$ 288,014	\$ 713,194	\$ (2,335,415)	\$ 9,198,556	\$ (3,110,938)	\$ 63,756	\$ 9,327	\$ (2,848)	\$ (2,662,483)	\$ (1,428,680)
Debt service as a percentage of noncapital expenditures:	1.90%	1.66%	4.06%	5.02%	6.61%	5.85%	7.93%	7.80%	7.13%	7.21%

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

Tax Remitter	Fiscal Year 2014				Fiscal Year 2005		
	Tax Liability	Rank	Percentage of Total		Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 4,375,792	1	37.0%	Retail Trade	\$ 3,577,399	1	27.6%
Restaurants & Bars	2,197,587	2	18.6%	Hotels & Other Lodging	3,191,717	2	24.7%
Hotels & Other Lodging	1,980,589	3	16.8%	Construction	1,783,265	3	13.8%
Construction	1,106,248	4	9.4%	Restaurants & Bars	1,625,205	4	12.6%
Insurance & Real Estate	928,205	5	7.9%	Insurance & Real Estate	923,366	5	7.1%
Trans/Comm/Utilities	621,539	6	5.3%	Services	687,305	6	5.3%
Services/Amusement	613,061	7	5.2%	Trans/Comm/Utilities	637,664	7	4.9%
Municipality & All Other	(681)	8	0.0%	Manufacturing	379,754	8	2.9%
Wholesale Trade	-	9		Wholesale Trade	123,798	9	1.0%
Manufacturing	-	10		Municipality & All Other	9,349	10	0.07%
	<u>\$ 11,822,340</u>		<u>100.0%</u>		<u>\$ 12,938,822</u>		<u>100.0%</u>

Source: Arizona Department of Revenue and Revenue Discovery System

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>Franchise Tax</u>	<u>Total</u>
2005	\$5,120,992	\$1,437,338	\$564,575	\$7,122,905
2006	6,505,406	1,850,892	591,055	8,947,353
2007	6,729,836	1,703,147	640,752	9,073,735
2008	6,671,721	1,899,439	667,237	9,238,397
2009	6,380,487	1,717,057	661,177	8,758,721
2010	5,782,462	1,426,241	666,326	7,875,029
2011	6,171,723	1,472,193	699,088	8,343,004
2012	5,841,697	1,867,282	713,577	8,422,556
2013	6,999,858	1,857,455	720,455	9,577,768
2014	7,996,706	2,097,290	738,631	10,832,627

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

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

Sales Category	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Mining	\$ 586	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125	\$ 62	\$ -	\$ -	\$ -
Construction	\$ 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	\$ 1,106,248
Manufacturing	379,754	392,883	385,046	327,604	309,407	265,998	183,658	15,124	-	-
Transportation, Communication and Utilities	637,664	675,906	689,975	694,121	670,573	704,133	691,194	610,278	566,849	621,539
Wholesale trade	123,798	122,250	139,891	130,121	135,271	121,420	70,613	27,402	10,290	-
Retail trade	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	4,375,792
Restaurants and bars	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	2,197,587
Finance, Insurance and real estate	923,366	873,166	974,352	896,313	861,924	853,836	800,883	770,388	747,856	928,205
Accommodations	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	1,980,589
Services	687,305	403,291	423,789	397,286	321,006	349,848	509,518	569,619	503,248	613,061
Public administrator	9,349	5,934	36,147	22,927	21,339	11,831	6,370	24,763	-	(681)
All other outlets	22,470	168,299	464,840	477,197	426,937	447,836	284,872	12,972	-	-
	<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>	<u>\$ 11,822,340</u>
Direct sales tax rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%

Source: Arizona Department of Revenue

Note: Fiscal Year 2012 amounts reflect receipts through June 2012

CITY OF SEDONA, ARIZONA
Revenue Capacity
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years (Unaudited)

<u>Fiscal Year</u>	<u>City Direct Sales Tax Rate</u>	<u>Yavapai County</u>	<u>Coconino County</u>	<u>State of Arizona</u>
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	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	3.00%	0.75%	1.125%	5.60%
2014	3.00%	0.75%	1.125%	5.60%

Source: Arizonal Department of Revenue

CITY OF SEDONA, ARIZONA
Debt Capacity
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years (Unaudited)

Fiscal Year	Governmental Activities				Business-Type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Certificates of Participation	Capital Leases	Special Assessment Bonds	Revenue Bonds	WIFA Loan	Certificates of Participation			
2005	4,161,765	-	-	945,000	56,993,324	1,211,612	-	63,311,701	16.19%	5,756
2006	4,183,255	-	-	730,000	54,844,264	1,090,451	-	60,847,970	15.35%	5,527
2007	3,899,745	-	-	500,000	52,595,203	969,290	-	57,964,238	14.82%	5,206
2008	12,421,059	-	-	260,000	58,695,624	848,148	-	72,224,831	18.47%	6,413
2009	12,121,768	-	107,279	-	55,425,528	726,967	-	68,381,542	17.81%	5,979
2010	11,817,478	-	86,337	-	52,005,412	605,806	-	64,515,033	18.71%	5,659
2011	11,498,188	-	64,328	-	48,430,295	-	-	59,992,811	18.79%	5,981
2012	11,163,896	-	41,198	-	45,060,343	-	-	56,265,437	17.89%	5,609
2013	11,135,500	-	16,889	-	41,889,499	-	-	53,041,888	16.65%	5,314
2014	10,684,842	-	-	-	37,333,514	-	-	48,018,356	8.80%	4,736

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

CITY OF SEDONA, ARIZONA
Debt Capacity
Direct and Overlapping Governmental Activities Debt
(Unaudited)

Governmental Unit	Outstanding Debt (1)	Estimated Percentage Applicable (2)	Estimated Share of Overlapping Debt
State of Arizona	\$ 61,082,635	0.53%	\$ 323,738
Coconino County	None	16.97%	None
Yavapai County	\$ 23,950,106	12.37%	\$ 2,962,628
Coconino County C.C.D.	\$ 9,465,000	16.97%	\$ 1,606,211
Yavapai County C.C.D.	48,665,000	12.37%	\$ 6,019,861
Sedona-Oak Creek Unified S.D. No. 9	6,782,039	60.28%	\$ 4,088,213
Sedona Fire District	\$ 2,336,524	60.14%	\$ 1,405,186
City of Sedona	\$ 48,450,509	100.00%	\$ 48,450,509
Total direct and overlapping debt	\$ 200,731,813		\$ 64,856,345

Source: Individual jurisdictions, State Budget Solutions

(1) Includes general obligation bonds outstanding

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

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

WIFA Loan

Fiscal Year	Less:		Net Available Revenue	Principal	Interest	Coverage
	Gross Revenues (1)	Operating Expenses (2)				
2005	3,832,386	1,243,578	2,588,808	121,161	61,522	14.17
2006	7,401,141	3,229,366	4,171,775	121,161	58,443	23.23
2007	5,592,098	2,003,340	3,588,758	121,161	55,240	20.34
2008	5,119,570	2,423,382	2,696,188	121,161	51,910	15.58
2009	4,524,196	2,874,549	1,649,647	121,161	48,448	9.73
2010	4,745,289	2,357,123	2,388,166	121,161	44,846	14.39
2011 (3)	-	-	-	-	-	N/A
2012	-	-	-	-	-	N/A
2013	-	-	-	-	-	N/A
2014	-	-	-	-	-	N/A

Special Assessment Bonds

Fiscal Year	Special Assessment Collections	Principal	Interest	Total	Coverage
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
2014	-	-	-	-	N/A

Excise Tax Revenue Bonds

Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
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
2014	14,390,382	4,405,000	2,077,929	6,482,929	2.22

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

Note: Information prior to 2003 was not available

- (1) Gross revenues include charges for services, capacity fees, investment earnings, miscellaneous revenues and gain on sale of capital assets.
- (2) Operating expenses do not include depreciation, interest expense and issuance costs.
- (3) WIFA Loan closed as of 2010.

CITY OF SEDONA, ARIZONA
Debt Capacity
Debt Limitations and Computation of Legal Debt Margin

	Water, Sewer, Light, Parks and Open Space Purpose Bonds Debt Limitation 20%	All Other General Obligation Bonds Debt Limitation 6%
Assessed Valuation:		
Assessed Value	\$ 177,099,032	\$ 177,099,032
Total assessed value	<u>\$ 177,099,032</u>	<u>\$ 177,099,032</u>
Legal debt margin:		
Debt limitation	\$ 35,419,806	\$ 10,625,942
Debt applicable to limitation:		
General Obligation Bonds	<u>-</u>	<u>-</u>
Total debt applicable to limitation	<u>-</u>	<u>-</u>
Legal debt margin	<u>\$ 35,419,806</u>	<u>\$ 10,625,942</u>
Total debt applicable to the limit as a percentage of the limit	0%	0%

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

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

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

Calendar Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	City of Sedona Unemployment Rate
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
2014	10,140	545,957,880	53,842	56.1	968	4.30

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

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

Note: Unemployment was only available for the Yavapai County portion of Sedona.

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

Employer	2014			2005		
	Employees (1)	Rank	Percentage of Total City Employment	Employees (1)	Rank	Percentage of Total City Employment
Enchantment Resorts (location outside of City)	500	1	10.29%	390	3	N/A
Amara Resort						
Sunterra Resorts	98	9	2.02%	400	2	N/A
Los Abridados	142	6	2.92%	500	1	N/A
L'Auberge de Sedona Resort	300	2	6.18%	180	5	N/A
Hilton Resort & Spa (Location outside of City)	181	3	3.73%	225	4	N/A
Sedona/Oak Creek School District	150	5	3.09%	180	5	N/A
Pink Jeep Tours	175	4	3.60%			
Sedona Rouge	113	7	2.33%	100	8	N/A
City of Sedona	111.5	8	2.30%	110	7	N/A
Radisson Resort	85	10	1.75%	120	6	N/A
	<u>1,856</u>		<u>38.19%</u>	<u>2,205</u>		

Source: The Arizona Department of Commerce.

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

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

Function	Full-time Equivalent Employees									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Management Services	24	23	25	25	25	18	17	18	19	20
Finance	5	5	5	5	5	5	6	5	7	7
Planning	4	4	5	5	5	6	6	6	6	6
Building	3	3	3	3	3	2	2	2	3	3
Other	1	1	1	1	1	1	1	5	5	5
Public Safety										
Officers	25	29	31	31	30	24	24	26	26	26
Civilians	9	9	8	8	10	8	10	10	10	11
Other Public Works										
Engineering	4	5	5	5	5	4	4	4	4	4
Other	9	11	11	11	11	14	14	13	13	13
Redevelopment	8	7	7	7	7	4	4	3	2	2
Parks and Recreation	6	6	6	6	7	3	2	2	2	3
Wastewater	7	8	11	11	11	11	11	10	10	10
Total	<u>105</u>	<u>111</u>	<u>118</u>	<u>118</u>	<u>120</u>	<u>100</u>	<u>101</u>	<u>104</u>	<u>107</u>	<u>110</u>

Source: City of Sedona, Arizona

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

Function	Fiscal Years									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Government										
Building Permits Issued	607	507	573	553	537	593	463	472	476	500
Building Inspections Conducted	3,431	2,303	3,168	2,737	2,180	2,086	1,277	1,453	1,781	1,907
Police										
Physical Arrests	594	439	662	542	652	544	537	497	364	325
Parking Violations	65	80	87	86	40	195	149	195	587	191
Traffic Violations	2,750	2,475	2,296	4,589	3,772	3,310	2,617	2,268	2,340	1,145
Other Public Works										
Street Resurfacing (Miles)	1.2	1.1	2.0	4.3	3.5	-	2.4	3	3.75	2.2
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	1.1	1.1	1.3	1.2	1.1	1.1	1.2	1.117	1.127	1.2

Source: City of Sedona, Arizona

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

Function	Fiscal Year									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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	8	9	11	11	12	16	13	13	17	15
Other Public Works										
Streets (Miles)	N/A	154.5	154.5	154.5	154.5	154.4	154.4	154.4	106	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	8	8	8	8	136	136
Parks and Recreation										
Acreage	100.3	100.3	100.3	100.3	91.8 **	93.0	93	93	93	123.34
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	615	619	650	651	651	659	659	659	659	659
Wastewater										
Sanitary Sewers (Miles)	-	156.4	159.3	75.0	75.0	75.0	75	166	166	166
Treatment Capacity (Millions of Gallons)	2.0	2.0	2.2	2.0	2.0	2.0	2	2	2	2

Source: City of Sedona, Arizona

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

Note: The 2014 acreage includes the Wetlands Preserve located at the Wastewater Treatment Plant and the Brewer Road Park

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITOR

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MEMBERS:

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KEVIN L. STEPHENS, CPA
MARK E. TICHENOR, CPA

**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, 2014, 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 December 19, 2014.

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 December 19, 2014, 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
December 19, 2014

MEMBERS:

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MARK E. TICHENOR, CPA

**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, 2014, and have issued our report thereon dated December 19, 2014. 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, 2014.

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
Flagstaff, Arizona
December 19, 2014

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