



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FISCAL YEAR ENDED
JUNE 30, 2015**

**City of Sedona
Arizona**

CITY OF SEDONA, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2015

Prepared by:
Financial Services Department

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CITY OF SEDONA, ARIZONA

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102 Roadrunner Drive
Sedona, AZ 86336
TDD (928) 204-7102
www.SedonaAZ.gov

December 31, 2015

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

We are pleased to submit to you the fiscal year 2015 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, bond rating agencies, Nationally 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 local 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 City'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, 2015, 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, 2015, 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

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. The estimated current population is approximately 10,281. The City has attempted to manage its growth in a way to maintain its character. The City's population has decreased slightly since its peak of 11,436 in 2009. 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 recycling services.

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 has continued to see positive revenue growth and strong recovery from recent the recessionary period. Overall, fiscal year 2015 was a successful year. Revenues exceeded conservative budget estimates by approximately eight percent, and were budgeted at an eleven percent increase for fiscal year 2016.

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 55 percent of the General Fund revenues. The City's sales tax rate is currently at three percent. In order to address the economic downturn, the sales tax split was adjusted to provide 2.1 percent to the General Fund and 0.9 percent 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 percent 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. The program exceeded all expectations in its first full year with the City realizing an eleven percent increase in sales taxes over the prior year actuals, and, combined with a 0.5 percent bed tax increase to partially fund these efforts, the City saw a 27 percent increase in bed tax revenue over prior year actuals. That increase was still 17.5 percent even after adjusting for the tax increase.

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 fifteen percent 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, the City has sufficient revenues to meet its demands for services and to fund day-to-day operations. The City will, however, need to identify new funding or reallocate other sources in order to keep up with the continuing demand for infrastructure improvements and new infrastructure. This will become especially critical after fiscal year 2019 when the capital reserve is anticipated to be depleted.

The City will continue the six-year capital budget process and focus on ensuring that a minimum of the first three years of the plan are fully funded, but as the City continues to spend down its reserves to fund capital infrastructure projects the City Council will need to make decisions regarding financing and/or other funding options. Over the summer and fall 2016 the Assistant City Manager and the Director of Financial Services will facilitate a Citizen Work Group to forecast future revenue and expenditures, both operating and capital, in all funds, to determine the true funding shortfalls given various scenarios. This group will identify options and provide recommendations for future funding to meet operational and/or capital infrastructure needs. This long-term outlook 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 expenditures/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 General Fund reserve-to-budget ratio well-above 100 percent. As the economy continues to rebound, fund balances will be spent down to upper limit policy levels of 50 to 75 percent 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 2015, 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 2015:

Police

- 60.7 percent reduction in violent crime (homicide, forcible rape, aggravated assault) from January through October 2015 as compared to same time period in 2014.
- 34.3 percent reduction in property crime (burglary, larceny, motor vehicle theft) from January through October 2015 as compared to same time period in 2014.
- Installation of a new turning target system at Police Shooting Range to enhance training activities.
- Received \$19,000 in grant funding from the Governor's Office of Highway Safety to conduct traffic safety awareness activities and purchase speed display/data capture signs.
- Received over \$16,000 in funding from the Yavapai-Apache Tribal Nation to support police department programs such as K9, Police Explorers and Police Volunteers.
- Completed critical safety improvements at the Police Shooting Range.
- Completed improvements to the police radio communications system as identified through a comprehensive study by professional consultants to enhance the radio system.
- Completed the replacement and upgrading of CAD/Records/Mobile systems and equipment to meet current technology requirements and mandated security protocols.
- Transitioned the Police Department Communications to become the primary Public Safety Answering Point for 9-1-1 calls in the City of Sedona.
- Recruited and trained six new police volunteers.
- Police volunteers donated over 3,000 hours to provide prisoner/evidence transportation, house watch, crime scene/traffic control assistance and special event services.
- Provided recognition for department personnel through Employee of the Year events held by Sedona Masonic Lodge, Sedona Elks Club, Clarkdale Moose Lodge, and Arizona MADD.

Public Works

- Assisted the Parks and Recreation Department in completing the design and construction of three projects, including the Wetlands Viewing Deck Project.
- Assisted the Police Department in completing the design and construction of the Police Department Shooting Range Upgrades Project.
- Completed design and construction of six drainage projects, including the AAA Industrial Park Project, five wastewater projects, and three street projects, including reconstruction of a segment of Airport Road.
- Completed Harmony-Windsong Phase 4 drainage-way construction.

Management Services

- Refinanced the City's Series 2005 bond debt resulting in interest savings of more than \$800,000.

- Launched a financial transparency website to allow interested citizens to review all of the City’s financial information down to the transaction level of detail.
- Completed first year of the new tourism promotion and destination marketing contract with the Sedona Chamber of Commerce and Tourism Bureau, which contributed to an eleven percent increase in sales tax revenues over the prior year.
- Added four routes to the Verde Lynx commuter transit system between Sedona and Cottonwood during peak periods.

Community Development

- Issued a total of 163 commercial construction permits including 5 new projects and 39 remodels.
- Issued a total of 269 residential construction permits including 28 new residential units and 80 remodels.
- Implemented a street performance program.
- Facilitated a Community Plan Advisory Group to make priority recommendations to implement the Community Plan.
- Facilitated Community Focus Area (CFA) planning efforts for the Soldiers Pass, Western Gateway, and Schnebly Hill CFAs.
- Developed a conceptual master plan for the Ranger Station Park site on Brewer Road.
- Established a Citizen Engagement Work Group to recommend amendments to the Accessory Dwelling Unit Ordinance.
- Facilitated a Citizen Engagement Work Group to address off-highway vehicle issues.
- Issued commercial building permits for: Marriott Courtyard, Sedona Rouge expansion, Chipotle Restaurant, CVS Pharmacy, Nexus office project, Starbucks, Whole Foods, and Tlaquepaque North.
- Closed 321 code enforcement cases.
- Completed 57 short-term rental investigations.
- Completed 1,295 building inspections.

Parks & Recreation

- Brought Arizona Youth Soccer Organization (AYSO) soccer back to Sedona.
- Hosted first ever summer and winter day camp for kids.
- Hosted a well-attended Fourth of July concert and laser show at Sedona Red Rock High School.
- Held successful, weekly dog social event (Yappy Hour) at Posse Grounds Park.
- Received grant funding for an exercise trail at Posse Grounds Park.
- Received grant funding for sports equipment.
- Hosted nine successful annual community events.
- Built a strong volunteer partnership with Aletheia Church.
- Took the lead on Holiday Central Sedona.
- Brought back youth Grasshopper Basketball at West Sedona School.

Wastewater

- Improved the maintenance program for the Sedona Wetlands Preserve.
- Completed the upgrade of energy saving modifications at the New Castle pump station.
- Disposed of about 966 tons of sludge at Grey Wolf Landfill.
- Participated in the review of projects to upgrade the wastewater treatment processes and install injection wells to increase plant wastewater management capacity to 1.63 million gallons per day.
- Completed and presented to the City Manager the citizen's committee report regarding land use concepts for 200 acres of plant land that will not be needed for spray irrigation when all injection wells are installed.
- Completed the electrical safety review of pump stations in collection system.
- Conducted plant tours for students and the public.
- Participated in the Verde Valley SciTech Festival and conducted tours of the Sedona Wetlands.
- Preserve to discuss the benefits of the wetlands as it relates to the management of the City's treated water.

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 January 2015, the City Council re-established their priority goals. Twenty-nine specific priorities were established; some were already in process. In fiscal year 2015, City Council and staff completed three of the priorities. Those included creation of a Human Rights Ordinance, enhancement of the City's website, and the creation of a street performers program.

Some of the in-progress priorities include implementation of an economic development program, updating the Accessory Dwelling Unit Ordinance, updating the Land Development Code, developing several community focus area specific area plans (CFA), initiating a city-wide multimodal traffic and transportation master plan, developing a plan for the City to possibly take over the responsibility for the provision of trash and recycling services, and developing a wireless master plan.

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, 2014. This was the 16th 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,

A handwritten signature in blue ink that reads "Justin Clifton". The signature is fluid and cursive, with a long horizontal stroke at the end.

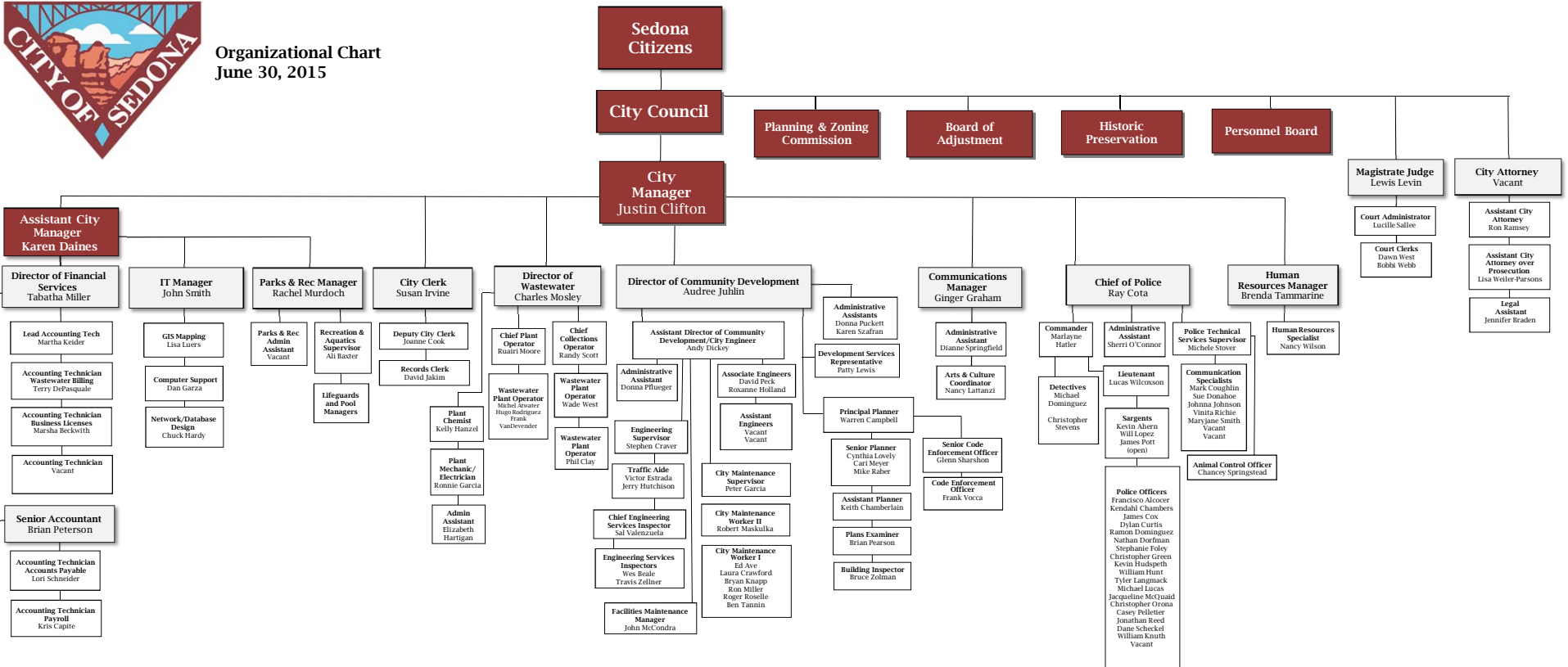
Justin Clifton
City Manager

A handwritten signature in black ink that reads "Karen Daines". The signature is cursive and somewhat stylized, with a prominent 'K' and 'D'.

Karen Daines
Assistant City Manager



Organizational Chart
June 30, 2015



CITY OF SEDONA, ARIZONA

List of Elected and Appointed Officials

June 30, 2015

Sandy Moriarty
Mayor

Mark DiNunzio
Vice Mayor

Councilmembers

Scott Jablow

Angela LeFevre

John Martinez

Jon Thompson

Jessica Williamson

Justin Clifton
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, 2014

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, 2015, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund and Highway User Revenue Special Revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in note 12 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of Contributions, the schedule of agent OPEB plan funding progress and the related notes to the pension plan schedules 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 November 13, 2015, 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
November 13, 2015

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CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015

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, 2015. 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 17 and the accompanying notes to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net position at the close of the fiscal year was \$109.7 million. This amount is comprised of \$88.1 million in net investment in capital assets, \$7.6 million of restricted net position and \$14.0 million in unrestricted net position.
- Governmental net position increased by \$3.3 million and business-type net position increased by \$1.8 million.
- Total City sales tax revenue increased over last year by 8.2 percent and still is the single largest revenue in the budget.
- Improvements totaling \$3.9 million were spent for the City's various drainage improvements, police department shooting range improvements, infrastructure, and other capital asset purchases for the City's governmental activities.
- Total debt service payments were approximately \$4.5 million leaving \$42.3 million in total bonds outstanding at the close of the year. The City refunded the Excise Tax Obligations, Series 2005 to obtain a lower interest rate and resulted in net savings of \$1.1 million.
- The General Fund's total fund balance decreased by \$4.7 million to \$12.8 million. The unassigned fund balance represents 78 percent of total General Fund expenditures for the fiscal year.
- The Capital Improvement fund balance increased by \$5.7 million to a total fund balance of \$8.1 million all restricted or committed 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 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, liabilities, and deferred inflows/outflows of resources. All of the current year's revenues and expenses are reported in the Statement of Activities regardless of when cash is received or paid. Thus revenues and expenses are reported for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

These two statements report the City's net position and changes. Net position, the difference between assets, liabilities, and deferred inflows/outflows of resources, is 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:

- Governmental activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, economic development, community services, 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 17-18 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) near-term inflows and outflows of spendable resources, and (2) the remaining year-end 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 City'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 19-25 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 26-28.

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 29-59.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City’s proportionate share of its net pension liability, schedule of contributions and progress in funding its obligation to provide pension benefits and other postemployment benefits (OPEB) to its public safety employees. Required supplementary information can be found beginning on page 62.

Other information

Combining statements referred to earlier in connection with nonmajor governmental funds, as well as budgetary comparison schedules for individual nonmajor funds and other major funds not required, are presented immediately following the required supplementary information on pensions and OPEB. Other supplementary information can be found beginning on page 68.

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$109.7 million as of June 30, 2015 and 2014 as shown in the following condensed statement of net position.

**City of Sedona
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$28,034,303	\$26,720,963	\$19,305,106	\$19,113,026	\$47,339,409	\$45,833,989
Capital assets	34,480,519	32,426,493	95,024,373	95,263,656	129,504,892	127,690,149
Total assets	62,514,822	59,147,456	114,329,479	114,376,682	176,844,301	173,524,138
Total deferred outflows of resources	2,084,741	123,400	338,188	368,884	2,422,929	492,284
Long-term liabilities outstanding	20,069,059	11,062,259	43,503,434	44,953,447	63,572,493	56,015,706
Other liabilities	2,037,427	1,997,338	2,206,680	1,192,842	4,244,107	3,190,180
Total liabilities	22,106,486	13,059,597	45,710,114	46,146,289	67,816,600	59,205,886
Total deferred inflows of resources	1,450,837	-	308,758	-	1,759,595	-
Net position:						
Net investment in capital asset	25,882,022	21,865,051	62,168,572	58,299,026	88,050,594	80,164,077
Restricted	7,629,454	6,770,279	-	-	7,629,454	6,770,279
Unrestricted	7,530,764	17,575,929	6,480,223	10,300,251	14,010,987	27,876,180
Total net position	\$41,042,240	\$46,211,259	\$68,648,795	\$68,599,277	\$109,691,035	\$114,810,536

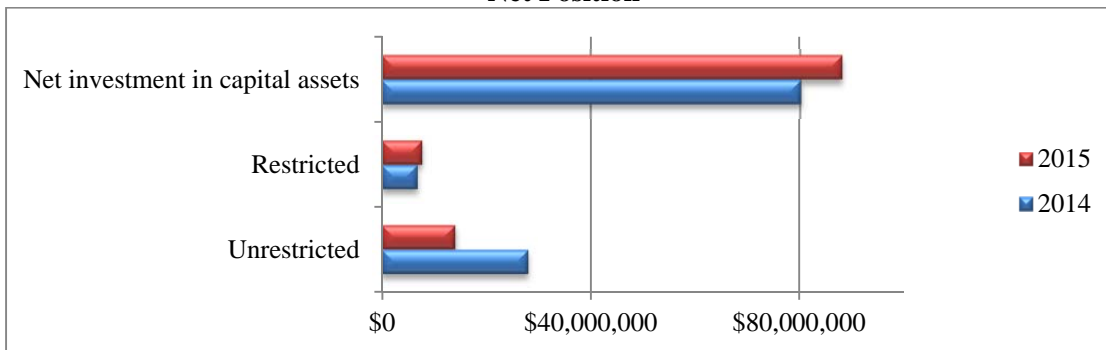
The City has \$176.8 million in total assets, \$2.4 million in deferred outflows of resources, with \$129.5 million in capital assets (net of depreciation). The City’s wastewater enterprise fund operation is included in the business-type activities column. These operations are capital intensive, using a large portion of their resources to maintain and replace major equipment and facilities.

By far, the largest portion of the City’s net position (80.3 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net position (7.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$14.0 million is unrestricted and may be used to meet the City’s ongoing obligations to its citizens and creditors.

At June 30, 2015, the City is able to report positive balances in all reported categories of net position, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**City of Sedona
Net Position**



City of Sedona
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenues:						
Program revenues:						
Charges for services	\$ 849,302	\$ 733,628	\$ 6,093,385	\$ 5,908,088	\$ 6,942,687	\$ 6,641,716
Operating grants and contributions	1,117,695	1,844,336	-	-	1,117,695	1,844,336
Capital grants and contributions	1,640,791	758,272	-	-	1,640,791	758,272
General revenues:						
Taxes	12,815,380	11,139,335	4,046,986	4,478,074	16,862,366	15,617,409
State revenue sharing	3,105,389	3,000,695	-	-	3,105,389	3,000,695
Investment earnings	210,386	255,995	73,193	126,548	283,579	382,543
Other revenue/(expense)	22,863	164,187	-	-	22,863	164,187
Total revenues	19,761,806	17,896,448	10,213,564	10,512,710	29,975,370	28,409,158
Expenses:						
General government	5,803,725	5,314,798	-	-	5,803,725	5,314,798
Public safety	4,208,855	3,691,142	-	-	4,208,855	3,691,142
Public works/Streets	3,352,131	3,986,709	-	-	3,352,131	3,986,709
Community and economic dev.	2,200,510	932,919	-	-	2,200,510	932,919
Community services	557,038	426,571	-	-	557,038	426,571
Interest on long-term debt	442,506	563,158	-	-	442,506	563,158
Wastewater	-	-	8,285,154	7,890,927	8,285,154	7,890,927
Total expenses	16,564,765	14,915,297	8,285,154	7,890,927	24,849,919	22,806,224
Increase (Decrease) in net position before transfers	3,197,041	2,981,151	1,928,410	2,621,783	5,125,451	5,602,934
Transfers	88,235	83,626	(88,235)	(83,626)	-	-
Increase (Decrease) in net position	3,285,276	3,064,777	1,840,175	2,538,157	5,125,451	5,602,934
Net position, beginning	46,211,259	43,146,482	68,599,277	66,061,120	114,810,536	109,207,602
Restatement/Prior period adjustment	(8,454,295)	-	(1,790,657)	-	(10,244,952)	-
Net position, ending	\$ 41,042,240	\$ 46,211,259	\$ 68,648,795	\$ 68,599,277	\$ 109,691,035	\$ 114,810,536

The City restated the fiscal year 2015 beginning net position for both governmental and business-type activities due to the implementation of Governmental Accounting Standards Board Statement No. 68 (GASB 68). More information on these adjustments can be found on page 59 of this report.

The City's overall net position increased \$5.1 million over the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities

During the fiscal year ended June 30, 2015, net position for governmental activities increased \$3.3 million over the prior fiscal year for an ending balance of \$41.0 million. The increase was primarily due to a sixteen percent increase in City sales taxes, including bed taxes, as the City's tourism industry experienced a resurgence after prolonged reductions during the recession. Other significant changes include the following:

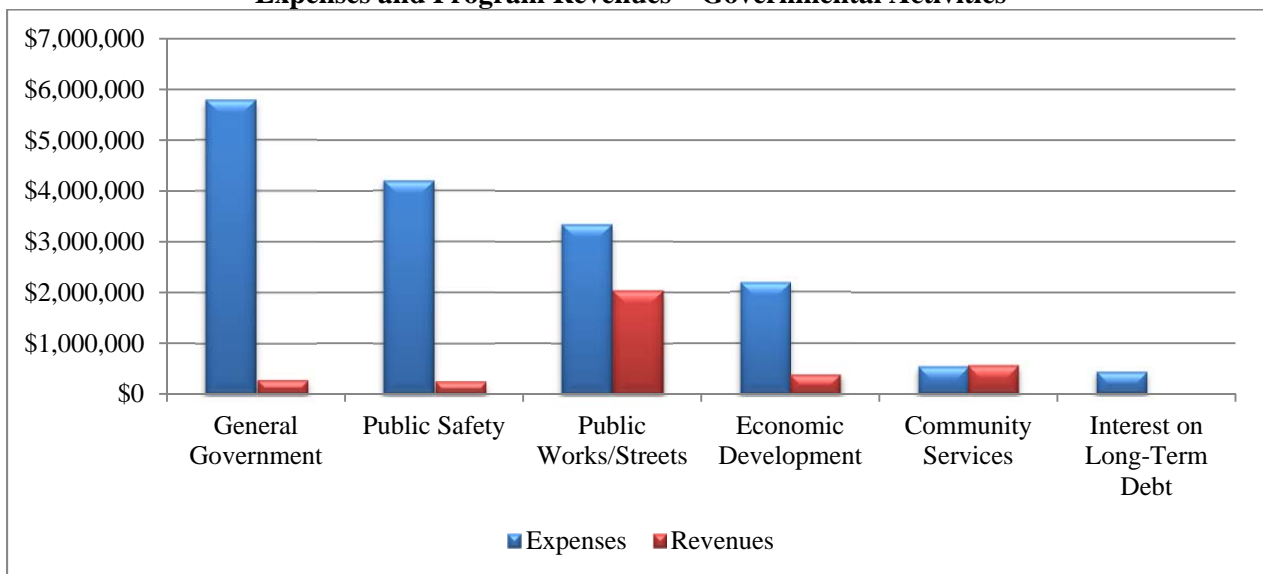
- Operating grants and contributions decreased by 39 percent primarily due to a reclassification of revenues associated with intergovernmental agreements for flood control projects to capital grants and contributions.
- Capital grants and contributions increased by 116 percent primarily due to a reclassification of revenues associated with intergovernmental agreements for flood control projects from operating grants and contributions. In addition, the increase was due to an intergovernmental agreement with Yavapai County during the year to share in the cost of airport road reconstruction.

- General government expenses increased by 25 percent due to the initiation of a destination marketing program to increase tourism activities within the Sedona area.
- Public safety expenses increased by 14 percent due to increases in salary and benefit costs due to the filling of vacant positions, as well as expenses recognized in implementation of GASB 68 for the Public Safety Personnel Retirement System.
- Economic development expenses increased by 136 percent due to the initiation of a destination marketing program to increase tourism activities within the Sedona area.

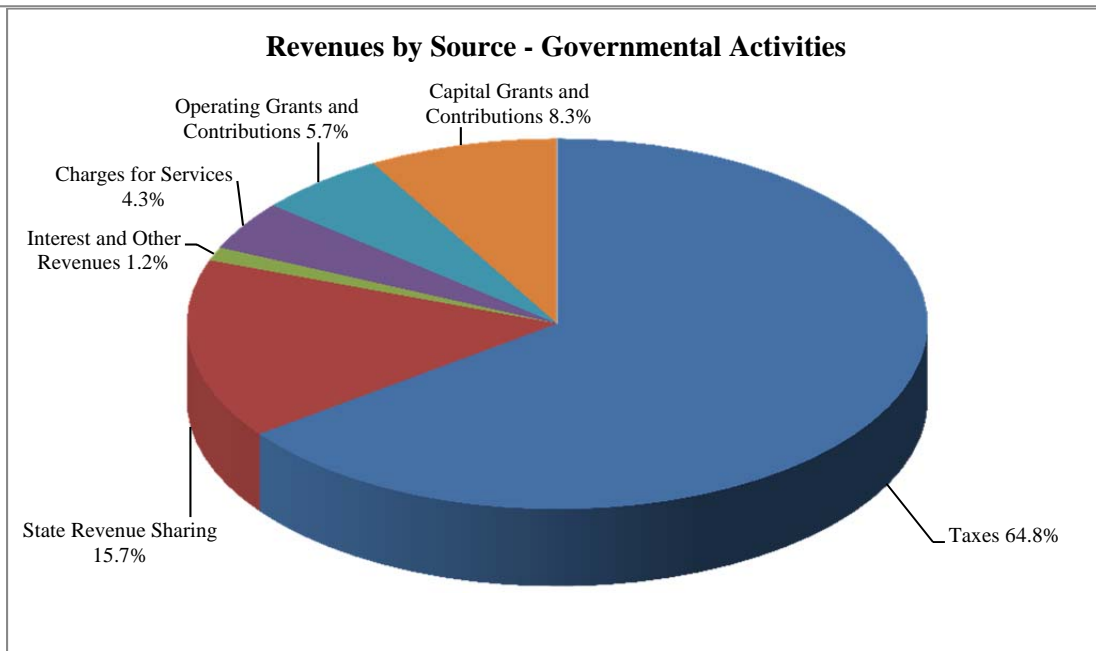
Total resources available during the year to finance governmental operations were \$57.5 million consisting of net position at July 1, 2014 of \$37.8 million (after the restatement adjustment for the net pension liability and related accounts of \$8.5 million), program revenues of \$3.6 million and general revenues of \$16.2 million.

The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities.

**City of Sedona
Expenses and Program Revenues – Governmental Activities**



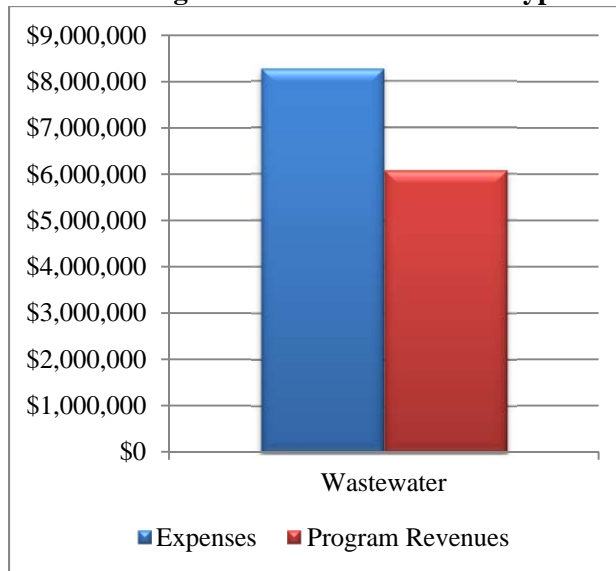
Revenues by Source - Governmental Activities



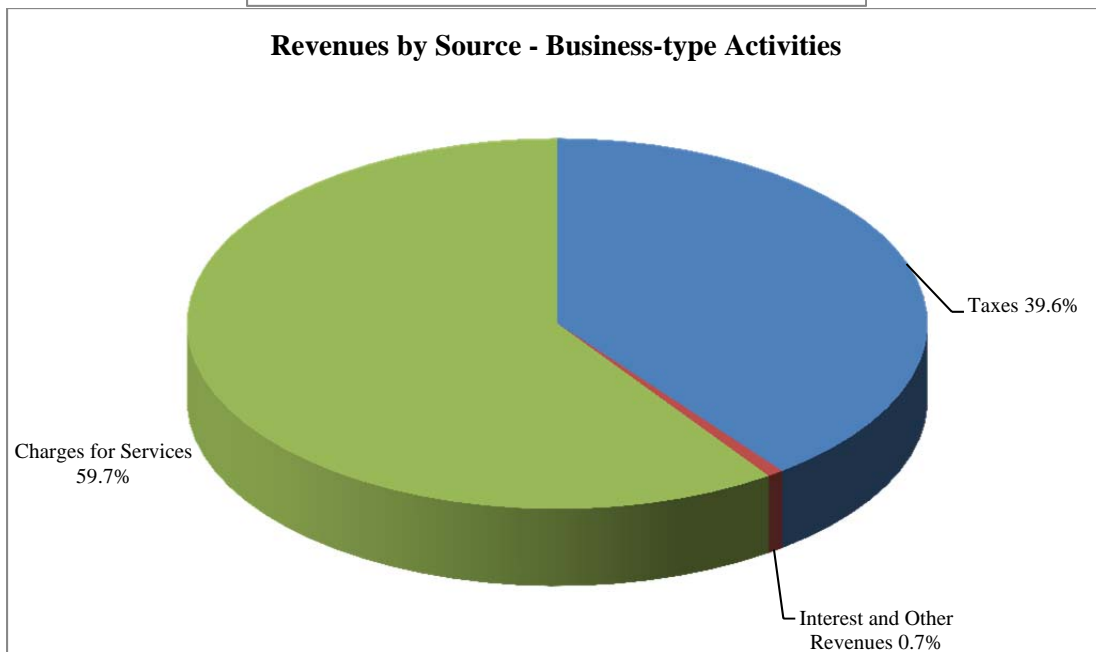
Business-type Activities

Net position of the business-type activities at June 30, 2015, as reflected in the Statement of Net Position was \$68.6 million. The cost of providing all proprietary (business-type) activities this year was \$8.3 million. As shown in the Statement of Activities, the amounts paid by users of the system were \$6.1 million, and there was \$4.0 million subsidized by sales tax revenues. Interest earnings and other revenues were \$73,193. The net position increased by \$1.8 million before the restatement adjustment for the net pension liability and related accounts of \$1.8 million.

**City of Sedona
Expenses and Program Revenues – Business-type Activities**



Revenues by Source - Business-type Activities



FINANCIAL ANALYSIS OF THE CITY’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 spendable 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 the City's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

As June 30, 2015, the City's governmental funds reported combined ending fund balances of \$25.8 million, an increase of \$1.5 million in comparison with the prior year. Approximately, 43 percent of this total amount or \$11.1 million constitutes unassigned fund balance, which is available for new spending at the City'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. At the end of the current fiscal year, total fund balance in the general fund was \$12.8 million, of which \$11.1 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 78 percent of total General Fund expenditures and total fund balance represents 89 percent of total General Fund expenditures.

During the year, the General Fund's fund balance decreased by \$4.7 million primarily due to a transfer to the Capital Improvement Fund to support future capital projects.

The Highway User Revenue Fund has a total fund balance of \$374,027, all of which is restricted for road and street construction and improvements.

The Capital Improvement Fund's fund balance increased by \$5.7 million primarily due to a transfer from the General Fund. 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.

Proprietary Fund

The Wastewater Fund experienced a \$1.8 million increase in net position for fiscal year 2015 primarily due to the accumulation of sales taxes allocated to support needed future projects and subsidy of services.

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 final budget if amended throughout the fiscal year, and the actual expenditures.

General Fund revenues of \$17.2 million were more than the budget of \$15.1 million by \$2.1 million. 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 \$14.3 million were 96 percent of the budgeted expenditures of \$14.8 million. 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 ASSETS 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 2015, net capital assets of the governmental activities totaled \$34.5 million and the net capital assets of the business-type activities totaled \$95.0 million. Depreciation on capital assets is recognized in the government-wide financial statements. (See note 6 to the financial statements.)

City of Sedona Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Land	\$ 8,268,414	\$ 8,258,034	\$ 11,159,413	\$ 11,159,413	\$ 19,427,827	\$ 19,417,447
Buildings	4,742,988	4,431,270	-	-	4,742,988	4,431,270
Improvements	4,537,115	4,709,014	-	-	4,537,115	4,709,014
System improvements	-	-	80,010,407	82,420,838	80,010,407	82,420,838
Machinery, equipment and vehicles	685,333	840,086	463,316	494,935	1,148,649	1,335,021
Infrastructure/roads	14,891,683	12,979,078	-	-	14,891,683	12,979,078
Construction in progress	1,354,986	1,209,011	3,391,237	1,188,470	4,746,223	2,397,481
Total	<u>\$ 34,480,519</u>	<u>\$ 32,426,493</u>	<u>\$ 95,024,373</u>	<u>\$ 95,263,656</u>	<u>\$ 129,504,892</u>	<u>\$ 127,690,149</u>

Major capital events during fiscal year 2015 included the following:

- Completion of improvements to the police department shooting range.
- Various drainage project improvements.
- Various road improvement projects.
- Construction in progress for wastewater treatment plant upgrades and effluent management injection wells.

Long-term Debt

At year-end, the City had \$10.3 million in governmental type debt, and \$32.9 million in business-type debt (excluding compensated absences and pension liabilities). The debt is a liability of the City and amounts to \$4,267 per capita. The City's total debt decreased by \$4.7 million after issuance of \$10.4 million in refunding bonds and 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 percent and 75 percent 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 2015-16 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue. The total adopted fiscal year 2015-16 budget is \$52.6 million, which includes capital projects of \$7.7 million. The budget for fiscal year 2015-16 also includes:

- Continued City sales tax collections by a third party administrator, Revenue Discovery Systems until the transition to the State on January 1, 2016; the Arizona Department of Revenue is scheduled to take over sales tax collections for the City as part of the State's Transaction Privilege Tax (TPT) Simplification Program.
- Continued sales tax audits by independent auditor, Al Holler and Associates.
- Review and update the land development code to be current with new development standards and other best practices.
- Completion of the uptown pedestrian improvements and roadway pavement replacement.
- Development of a comprehensive transportation study.
- Continued annual transfer of \$500,000 from the General Fund to the Highway User Revenue Fund to augment the number of roads the City is able to repave each year.
- Refunding of bonds to benefit from the savings to be gained with lower interest rates.
- 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.
- Possible park land or creek walk property acquisition.
- Various drainage improvement projects.
- Continuation of the wastewater effluent management project.
- Continuation of the wastewater treatment plant upgrades.
- Completion of wastewater master plan for the collection system.

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 City'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

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CITY OF SEDONA, ARIZONA
Statement of Net Position
June 30, 2015

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 23,796,404	\$ 18,405,285	\$ 42,201,689
Receivables (net of allowance)	2,596,054	716,688	3,312,742
Prepays	-	149,873	149,873
Temporarily restricted assets:			
Cash and cash equivalents	1,641,845	33,260	1,675,105
Capital assets (net of accumulated depreciation):			
Land	8,268,414	11,159,413	19,427,827
Construction in progress	1,354,986	3,391,237	4,746,223
Buildings	4,742,988	-	4,742,988
Improvements	4,537,115	-	4,537,115
System improvements	-	80,010,408	80,010,408
Machinery, equipment and vehicles	685,333	463,315	1,148,648
Infrastructure/Roads	14,891,683	-	14,891,683
Total assets	<u>62,514,822</u>	<u>114,329,479</u>	<u>176,844,301</u>
Deferred Outflows of Resources			
Deferred charge on refunding	98,720	73,524	172,244
Deferred outflows related to pensions	1,986,021	264,664	2,250,685
Total deferred outflows of resources	<u>2,084,741</u>	<u>338,188</u>	<u>2,422,929</u>
Liabilities			
Accounts payable and other current liabilities	1,590,064	1,384,753	2,974,817
Customer deposits	-	33,260	33,260
Unearned revenue	447,363	788,667	1,236,030
Noncurrent liabilities:			
Interest payable	-	8,740,542	8,740,542
Due within one year	445,510	4,787,504	5,233,014
Due in more than one year	19,623,549	29,975,388	49,598,937
Total liabilities	<u>22,106,486</u>	<u>45,710,114</u>	<u>67,816,600</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions	1,450,837	308,758	1,759,595
Total deferred inflows of resources	<u>1,450,837</u>	<u>308,758</u>	<u>1,759,595</u>
Net Position			
Net investment in capital assets	25,882,022	62,168,572	88,050,594
Restricted for:			
Highways and streets	374,027	-	374,027
Capital outlay	5,751,975	-	5,751,975
Public safety	164,184	-	164,184
Community services	1,339,268	-	1,339,268
Unrestricted	7,530,764	6,480,223	14,010,987
Total net position	<u>\$ 41,042,240</u>	<u>\$ 68,648,795</u>	<u>\$ 109,691,035</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, 2015

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	\$ 5,803,725	\$ 298,015	\$ -	\$ 1,054	\$ (5,504,656)	\$ -	\$ (5,504,656)
Public safety	4,208,855	49,218	206,321	17,001	(3,936,315)	-	(3,936,315)
Public works/streets	3,352,131	3,870	886,356	1,165,032	(1,296,873)	-	(1,296,873)
Community and economic dev.	2,200,510	402,483	-	-	(1,798,027)	-	(1,798,027)
Community services	557,038	95,716	25,018	457,704	21,400	-	21,400
Interest on long-term debt	442,506	-	-	-	(442,506)	-	(442,506)
Total governmental activities	<u>16,564,765</u>	<u>849,302</u>	<u>1,117,695</u>	<u>1,640,791</u>	<u>(12,956,977)</u>	<u>-</u>	<u>(12,956,977)</u>
Business-type activities:							
Wastewater	<u>8,285,154</u>	<u>6,093,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,191,769)</u>	<u>(2,191,769)</u>
Total business-type activities	<u>8,285,154</u>	<u>6,093,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,191,769)</u>	<u>(2,191,769)</u>
Total primary government	<u>\$ 24,849,919</u>	<u>\$ 6,942,687</u>	<u>\$ 1,117,695</u>	<u>\$ 1,640,791</u>			
General Revenues:							
Taxes:							
Sales tax					12,050,907	4,046,986	16,097,893
Franchise tax					764,473	-	764,473
Auto fee in lieu tax (unrestricted)					534,404	-	534,404
Bed tax fee in lieu (unrestricted)					439,949	-	439,949
State sales tax (unrestricted)					916,721	-	916,721
Urban revenue sharing (unrestricted)					1,214,315	-	1,214,315
Unrestricted investment earnings					210,386	73,193	283,579
Gain on sale of capital assets					22,863	-	22,863
Transfers					88,235	(88,235)	-
Total general revenues & transfers					<u>16,242,253</u>	<u>4,031,944</u>	<u>20,274,197</u>
Change in net position					<u>3,285,276</u>	<u>1,840,175</u>	<u>5,125,451</u>
Net position - beginning					46,211,259	68,599,277	114,810,536
Restatement adjustment					(8,454,295)	(1,790,657)	(10,244,952)
Net position - ending					<u>\$ 41,042,240</u>	<u>\$ 68,648,795</u>	<u>\$ 109,691,035</u>

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

CITY OF SEDONA, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 10,263,439	\$ 329,797	\$ 8,446,430	\$ 4,756,738	\$ 23,796,404
Receivables:					
Taxes	2,034,870	-	-	149,330	2,184,200
Other	48,285	-	-	-	48,285
Intergovernmental	55,825	82,024	154,549	71,171	363,569
Restricted cash and investments	1,641,845	-	-	-	1,641,845
Total assets	\$ 14,044,264	\$ 411,821	\$ 8,600,979	\$ 4,977,239	\$ 28,034,303
Liabilities					
Accounts payable	\$ 745,075	\$ 37,794	\$ 419,551	\$ 70,432	\$ 1,272,852
Accrued wages and benefits	317,212	-	-	-	317,212
Unearned revenue	72,826	-	104,363	270,174	447,363
Total liabilities	1,135,113	37,794	523,914	340,606	2,037,427
Deferred Inflows of Resources					
Unavailable revenue - taxes	145,325	-	-	28,936	174,261
Total deferred inflows of resources	145,325	-	-	28,936	174,261
Fund Balances					
Restricted for:					
Public safety	-	-	-	164,184	164,184
Public works/streets	-	374,027	-	-	374,027
Community services	-	-	-	1,339,268	1,339,268
Capital outlay	1,641,845	-	2,703,157	3,048,818	7,393,820
Committed to:					
Community services	-	-	-	55,427	55,427
Capital outlay	-	-	5,373,908	-	5,373,908
Unassigned	11,121,981	-	-	-	11,121,981
Total fund balances	12,763,826	374,027	8,077,065	4,607,697	25,822,615
Total liabilities, deferred inflows of of resources, and fund balances	\$ 14,044,264	\$ 411,821	\$ 8,600,979	\$ 4,977,239	\$ 28,034,303

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, 2015

Total governmental fund balances	\$	25,822,615
<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	\$ 56,960,501	
Less accumulated depreciation	<u>(22,479,982)</u>	34,480,519
<p>Some liabilities, including bonds payable and net pension liability, are not due and payable in the current period and therefore are not reported in the funds.</p>		
Bonds payable	\$ (10,329,700)	
Net pension liability	(9,367,312)	
Bond premiums	(9,362)	
Compensated absences	<u>(362,685)</u>	(20,069,059)
<p>Deferred outflows of resources reported as deferred charge on debt refunding are applicable to future reporting periods and therefore are not reported in the funds.</p>		
		98,720
<p>Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and therefore are not reported in the funds.</p>		
Deferred outflows	\$ 1,986,021	
Deferred inflows	<u>(1,450,837)</u>	535,184
<p>Sales tax audit revenues and CFD fee-in-lieu taxes are deferred in the governmental fund financial statements but recognized when earned in the statement of activities</p>		
		<u>174,261</u>
Total net position of governmental activities	\$	<u><u>41,042,240</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, 2015

REVENUES	General Fund	Highway User Revenue Fund	Capital Improvement Fund	Non-major Funds	Totals (Memorandum Only)
Taxes	\$ 13,452,715	\$ -	\$ -	\$ 173,481	\$ 13,626,196
Licenses, permits and fees	468,722	-	-	-	468,722
Intergovernmental revenue	2,705,159	857,363	1,210,923	209,764	4,983,209
Contributions/donations	-	-	-	23,711	23,711
Charges for services	170,380	-	-	-	170,380
Fines and forfeitures	172,694	-	-	-	172,694
Impact fees	-	-	-	216,039	216,039
Interest	179,891	4,736	27,196	26,769	238,592
Other revenues	38,707	-	-	-	38,707
Total revenues	<u>17,188,268</u>	<u>862,099</u>	<u>1,238,119</u>	<u>649,764</u>	<u>19,938,250</u>
EXPENDITURES					
Current:					
General government	5,472,050	-	-	-	5,472,050
Public safety	3,626,565	-	-	143,815	3,770,380
Public works/Streets	1,792,584	488,072	-	-	2,280,656
Economic development	2,193,308	-	-	-	2,193,308
Community services	454,464	-	-	96,298	550,762
Capital outlay	-	-	3,298,416	247,614	3,546,030
Debt service:					
Principal	345,000	-	-	-	345,000
Interest and fiscal charges	418,606	-	-	-	418,606
Total expenditures	<u>14,302,577</u>	<u>488,072</u>	<u>3,298,416</u>	<u>487,727</u>	<u>18,576,792</u>
Excess of revenues					
Over (Under) Expenditures	<u>2,885,691</u>	<u>374,027</u>	<u>(2,060,297)</u>	<u>162,037</u>	<u>1,361,458</u>
Other Financing Sources (Uses):					
Sale of general capital assets	22,863	-	-	-	22,863
Transfers out	(7,834,370)	-	(120,867)	-	(7,955,237)
Transfers in	176,469	-	7,834,370	32,633	8,043,472
Total other financing Sources (Uses)	<u>(7,635,038)</u>	<u>-</u>	<u>7,713,503</u>	<u>32,633</u>	<u>111,098</u>
Net change in fund balances	(4,749,347)	374,027	5,653,206	194,670	1,472,556
Fund balances, beginning of year	17,513,173	-	2,423,859	4,413,027	24,350,059
Fund balances, end of year	<u>\$ 12,763,826</u>	<u>\$ 374,027</u>	<u>\$ 8,077,065</u>	<u>\$ 4,607,697</u>	<u>\$ 25,822,615</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, 2015

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

Net change in fund balances - total governmental funds		\$ 1,472,556
<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>		
Expenditures for capitalized assets	\$ 3,930,697	
Depreciation expense	<u>(1,876,671)</u>	2,054,026
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.		(199,305)
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.		345,000
Pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the net pension liability is measured a year before the City's report date. Pension expense, which is the change in net pension liability adjusted for changed in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.		(377,834)
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.		14,733
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.		
Amortization of deferred amounts on refunding		(24,680)
Amortization of bond premium		<u>780</u>
Change in net position of governmental activities		<u><u>\$ 3,285,276</u></u>

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

CITY OF SEDONA, ARIZONA
Statement of Revenues, Expenditures, and Changes in Fund Balance
General Fund
Budget and Actual
For the Year Ended June 30, 2015

Revenues	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Taxes:				
City sales tax	\$ 8,162,000	\$ 8,162,000	\$ 9,393,980	\$ 1,231,980
Bed tax	2,120,000	2,120,000	2,659,290	539,290
Recovery of sales taxes - audit	93,000	93,000	195,023	102,023
Fee-in lieu taxes	410,000	410,000	439,949	29,949
Franchise taxes	757,000	757,000	764,473	7,473
Total taxes	<u>11,542,000</u>	<u>11,542,000</u>	<u>13,452,715</u>	<u>1,910,715</u>
Licenses and permits	300,190	300,190	468,722	168,532
Intergovernmental revenues:				
State sales tax	906,000	906,000	916,721	10,721
Auto lieu tax	553,660	553,660	534,404	(19,256)
Urban revenue sharing	1,214,232	1,214,232	1,214,315	83
Grant revenues	-	-	39,719	39,719
Total intergovernmental	<u>2,673,892</u>	<u>2,673,892</u>	<u>2,705,159</u>	<u>31,267</u>
Charges for services:				
General government	2,800	2,800	4,023	1,223
Police	26,000	26,000	50,418	24,418
Public works	4,000	4,000	3,870	(130)
Community development	8,200	8,200	16,353	8,153
Parks and recreation	56,000	56,000	95,716	39,716
Total charges for services	<u>97,000</u>	<u>97,000</u>	<u>170,380</u>	<u>73,380</u>
Fines and forfeitures	142,000	142,000	172,694	30,694
Interest earnings	118,810	118,810	179,891	61,081
Other revenues:				
Tax audits - interest/penalty	50,000	50,000	-	(50,000)
Miscellaneous revenues	200,000	200,000	38,707	(161,293)
Total other revenues	<u>250,000</u>	<u>250,000</u>	<u>38,707</u>	<u>(211,293)</u>
Total revenues	<u>15,123,892</u>	<u>15,123,892</u>	<u>17,188,268</u>	<u>2,064,376</u>
Expenditures				
Current:				
General government:				
City clerk	280,498	280,498	243,829	36,669
City council	71,276	71,276	67,197	4,079
City manager	790,854	790,854	704,983	85,871
Human resources	193,966	193,966	191,432	2,534
Financial services	460,678	460,678	416,550	44,128
Information technology	1,146,051	1,146,051	1,058,766	87,285
Legal	481,027	481,027	490,736	(9,709)
Municipal court	302,881	302,881	291,684	11,197
General services	1,974,290	1,974,290	2,006,873	(32,583)
Total general government	<u>5,701,521</u>	<u>5,701,521</u>	<u>5,472,050</u>	<u>229,471</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Public safety:				
Police	3,756,494	3,756,494	3,626,565	129,929
Total public safety	3,756,494	3,756,494	3,626,565	129,929
Public works:				
Public works	1,918,181	1,918,181	1,792,584	125,597
Total public works	1,918,181	1,918,181	1,792,584	125,597
Community and economic development:				
Destination marketing	973,500	973,500	1,139,109	(165,609)
Community development	1,183,336	1,183,336	1,054,199	129,137
Total community and economic dev	2,156,836	2,156,836	2,193,308	(36,472)
Community services:				
Parks and recreation	466,510	466,510	454,464	12,046
Total community services	466,510	466,510	454,464	12,046
Debt service:				
Principal	411,160	411,160	345,000	66,160
Interest	418,606	418,606	418,606	-
Total expenditures	14,829,308	14,829,308	14,302,577	526,731
Excess of revenues over expenditures	294,584	294,584	2,885,691	2,591,107
Other financing sources (uses)				
Sale of general capital assets	20,000	20,000	22,863	2,863
Transfers out	(6,441,364)	(6,441,364)	(7,834,370)	(1,393,006)
Transfers in	170,162	170,162	176,469	6,307
Total other financing sources and (uses)	(6,251,202)	(6,251,202)	(7,635,038)	(1,383,836)
Net change in fund balance	(5,956,618)	(5,956,618)	(4,749,347)	1,207,271
Fund balance - beginning	5,956,618	5,956,618	17,513,173	11,556,555
Fund balance - ending	\$ -	\$ -	\$ 12,763,826	\$ 12,763,826

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, 2015

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Intergovernmental revenue	\$ 747,140	\$ 747,140	\$ 857,363	\$ 110,223
Interest	18,000	18,000	4,736	(13,264)
Total revenues	<u>765,140</u>	<u>765,140</u>	<u>862,099</u>	<u>96,959</u>
EXPENDITURES				
Public works/Streets:				
Services, supplies and other	1,275,140	1,275,140	488,072	787,068
Total expenditures	<u>1,275,140</u>	<u>1,275,140</u>	<u>488,072</u>	<u>787,068</u>
Excess of revenues				
Over (Under) expenditures	<u>(510,000)</u>	<u>(510,000)</u>	<u>374,027</u>	<u>884,027</u>
Other Financing Sources (Uses):				
Transfers in	500,000	500,000	-	(500,000)
Total other financing Sources (Uses)	<u>500,000</u>	<u>500,000</u>	<u>-</u>	<u>(500,000)</u>
Net change in fund balance	(10,000)	(10,000)	374,027	384,027
Fund balance, beginning of year	<u>10,000</u>	<u>10,000</u>	<u>-</u>	<u>(10,000)</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 374,027</u>	<u>\$ 374,027</u>

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

CITY OF SEDONA, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-Type Activities Wastewater Enterprise Fund
Assets	
Current Assets:	
Cash	\$ 18,405,285
Receivables (net of allowance):	
Accounts receivable	619,305
Sales tax receivable	97,383
Prepays	149,873
Restricted cash	33,260
Total current assets	19,305,106
Noncurrent Assets:	
Capital Assets (net of depreciation):	
Land	11,159,413
Construction in progress	3,391,237
Wastewater system	80,010,408
Machinery, equipment and vehicles	463,315
Total capital assets	95,024,373
Total Assets	114,329,479
Deferred Outflows of Resources	
Deferred charge on refunding	73,524
Deferred outflows related to pensions	264,664
Total deferred outflows of resources	338,188
Liabilities	
Current liabilities:	
Accounts payable	1,384,753
Utility deposits	33,260
Unearned revenue	788,667
Compensated absences - current portion	42,504
Bonds payable - current portion	4,745,000
Total current liabilities	6,994,184
Noncurrent liabilities:	
Interest payable	8,740,542
Compensated absences, net of current portion	25,408
Bonds payable, net of current portion	28,184,325
Net pension liability	1,765,655
Total noncurrent liabilities	38,715,930
Total liabilities	45,710,114
Deferred Inflows of Resources	
Deferred inflows related to pensions	308,758
Net Position	
Net investment in capital assets	62,168,572
Unrestricted	6,480,223
Total net position	\$ 68,648,795

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, 2015

	Business-Type Activities Wastewater Enterprise Fund
Operating Revenues	
Charges for services	\$ 5,556,941
Other income	3,390
Total operating revenues	5,560,331
Operating Expenses	
Wastewater Administration:	
Salaries, wages and benefits	745,534
Services supplies and other	399,635
Wastewater Construction:	
Non-capitalized construction costs	135,227
Wastewater Treatment Plant:	
Salaries, wages and benefits	694,539
Services supplies and other	1,516,015
Depreciation	2,571,405
Total operating expenses	6,062,355
Operating income (loss)	(502,024)
Non-operating Revenues (Expenses)	
Taxes	4,046,986
Capacity fees	533,054
Investment earnings	73,193
Interest on long-term debt	(2,132,120)
Issuance costs	(90,679)
Total non-operating revenue (expense)	2,430,434
Income before transfers	1,928,410
Transfers out	(88,235)
Change in net position	1,840,175
Net position, beginning of year	68,599,277
Restatement adjustment	(1,790,657)
Net position, end of year	\$ 68,648,795

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, 2015

	Business-Type Activities Wastewater Enterprise Fund
Cash Flows From Operating Activities:	
Cash received from customers, service fees	\$ 5,601,855
Cash received from customers, other	5,665
Cash paid to suppliers	(1,111,286)
Cash paid to employees	(1,407,805)
Cash flows from operating activities	3,088,429
Cash Flows From Noncapital and Related	
Financing Activities:	
Tax receipts	4,134,760
Transfers	(88,235)
Cash flows from noncapital and related financing activities	4,046,525
Cash Flows From Capital and Related	
Financing Activities:	
Proceeds from long term debt	10,390,000
Purchase of capital assets	(2,332,121)
Bond issue costs	(90,679)
Principal paid on long term debt	(4,140,000)
Payment to bond refunding escrow agent	(10,290,000)
Interest paid	(1,080,340)
Capacity fees and other	509,888
Cash flows from capital and related financing activities	(7,033,252)
Cash Flows From Investing Activities:	
Interest on investments	73,193
Net change in cash and cash equivalents	174,895
Cash and cash equivalents, including temporarily restricted cash, beginning of year	18,263,650
Cash and cash equivalents, including temporarily restricted cash , end of year	\$ 18,438,545
Reconciliation of Operating Income to Net	
Cash Flows from Operating Activities:	
Net operating income/(loss)	\$ (502,024)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Depreciation/amortization	2,571,405
Pension expense	147,644
Employer pension contributions	(128,552)
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	44,914
(Increase)/Decrease in prepaids	(149,873)
Increase/(Decrease) in payables	1,089,464
Increase/(Decrease) in customer deposits	2,275
Increase/(Decrease) in accrued wages and compensation	13,176
Net cash flows from operating activities	\$ 3,088,429

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

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

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. 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. Separate financial statements are not issued for the SWMPC.

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. The operational responsibility for the Districts rests with the management of the City. For financial reporting purposes, transactions of the Districts are combined and reported within the governmental fund financial statements. Separate financial statements are not issued for the Districts.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

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, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

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 blended component units. Separate statements for each fund category—governmental and proprietary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental 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.

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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

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.

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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

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. 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.

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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies, Continued

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 two items which qualify for reporting in this category. The first item, deferred charges on refunding, is 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. The second item is pension related items reported on the government-wide financial statements. See footnote 10 for more information.

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 two items that qualify for reporting in this category. The first 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. The second item is pension related items reported on the government-wide financial statements. See footnote 10 for more information.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by ASRS and PSPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

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, 2015

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 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, 2015

Note 1. Summary of Significant Accounting Policies, Continued

New pronouncements

For the year ended June 30, 2015, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. Implementation of these new Statements resulted in a restatement of beginning net position in the City's government-wide and proprietary fund financial statements (see Note 11).

Note 2. Stewardship, Compliance, and Accountability

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

Budgets and Budgetary Accounting

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

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of a resolution. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The City follows a voter-approved alternative expenditure limitation that was adopted in 2008 and extended on March 13, 2012. The alternative expenditure limitation was most recently extended on August 26, 2014.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 2. Stewardship, Compliance, and Accountability, Continued

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, 2015.

Expenditures over Appropriations

The legal level of budgetary control is 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, 2015, if any.

Highway User Revenue Funds

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

Note 3. Deposits and Investments

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

Cash and cash equivalents	\$ 42,201,689
Restricted cash and cash equivalents	<u>1,675,105</u>
	<u>\$ 43,876,794</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 3. Deposits and Investments, Continued

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, 2015, the City's bank balance was \$10,653,778 and \$10,181,790 of that balance was exposed to custodial credit risk because it was uninsured and 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.

As of June 30, 2015 the City had the following deposits and investments:

	Fair Value	Credit Rating	Weighted Average Maturity
Cash on deposit	\$ 16,498,972	N/A	N/A
Cash on hand	6,589	N/A	N/A
Local Governments Investment Pool	27,371,232	(1)	(2)
	\$ 43,876,793		

(1) The City's investment in the State Treasurer's Investment Pool #5 was rated AAf/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.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 3. Deposits and Investments, Continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35- 323). A.R.S. 35-323 requires that the City's investment portfolio maturities do not exceed five years from the time of purchase. The City's investment policy also limits the City to investments with maturities of 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 4. Restricted Assets

Restricted assets consisted of the following at June 30, 2015:

General Fund:	
Unspent bond proceeds	\$ 1,641,845
Wastewater Fund - Customer Deposits	<u>33,260</u>
	<u><u>\$ 1,675,105</u></u>

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CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 5. Capital Assets

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

Governmental Activities:	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Capital assets, not being depreciated:				
Land	\$ 8,258,034	\$ 10,380	\$ -	\$ 8,268,414
Construction in progress	1,209,011	3,509,018	(3,363,043)	1,354,986
Total capital assets, not being depreciated	<u>9,467,045</u>	<u>3,519,398</u>	<u>(3,363,043)</u>	<u>9,623,400</u>
Capital assets, being depreciated:				
Land improvements	6,530,828	-	-	6,530,828
Buildings and improvements	7,228,701	571,358	-	7,800,059
Machinery, equipment and vehicles	5,696,529	240,834	(40,355)	5,897,008
Infrastructure	24,147,056	2,962,150	-	27,109,206
Total capital assets, being depreciated	<u>43,603,114</u>	<u>3,774,342</u>	<u>(40,355)</u>	<u>47,337,101</u>
Less accumulated depreciation for:				
Land improvements	(1,821,814)	(171,899)	-	(1,993,713)
Buildings and improvements	(2,797,431)	(259,640)	-	(3,057,071)
Machinery, equipment and vehicles	(4,856,443)	(395,587)	40,355	(5,211,675)
Infrastructure	(11,167,978)	(1,049,545)	-	(12,217,523)
Total accumulated depreciation	<u>(20,643,666)</u>	<u>(1,876,671)</u>	<u>40,355</u>	<u>(22,479,982)</u>
Total capital assets, being depreciated, net	<u>22,959,448</u>	<u>1,897,671</u>	<u>-</u>	<u>24,857,119</u>
Governmental activities capital assets, net	<u>\$ 32,426,493</u>	<u>\$ 5,417,069</u>	<u>\$ (3,363,043)</u>	<u>\$ 34,480,519</u>

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

Governmental Activities:	
General government	\$ 353,749
Public safety	194,886
Public works/streets	1,250,315
Community services	77,721
Total depreciation expense - governmental activities	<u>\$ 1,876,671</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 5. Capital Assets, Continued

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

Business Type Activities:	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Capital assets not being depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Construction in progress	1,188,470	2,266,782	(64,015)	3,391,237
Total capital assets, not being depreciated	<u>12,347,883</u>	<u>2,266,782</u>	<u>(64,015)</u>	<u>14,550,650</u>
Capital assets being depreciated:				
Wastewater system	113,191,571	53,505	-	113,245,076
Machinery, equipment and vehicles	5,079,754	75,849	(19,636)	5,135,967
Total capital assets, being depreciated	<u>118,271,325</u>	<u>129,354</u>	<u>(19,636)</u>	<u>118,381,043</u>
Less accumulated depreciation for:				
Wastewater system	(30,770,733)	(2,463,935)	-	(33,234,668)
Machinery, equipment and vehicles	(4,584,819)	(107,469)	19,636	(4,672,652)
Total accumulated depreciation	<u>(35,355,552)</u>	<u>(2,571,404)</u>	<u>19,636</u>	<u>(37,907,320)</u>
Total capital assets, being depreciated, net	<u>82,915,773</u>	<u>(2,442,050)</u>	<u>-</u>	<u>80,473,723</u>
Business-type activities capital assets, net	<u>\$ 95,263,656</u>	<u>\$ (175,268)</u>	<u>\$ (64,015)</u>	<u>\$ 95,024,373</u>

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

Business-Type Activities:	
Wastewater	<u>\$ 2,571,404</u>

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Current Portion
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 10,674,700	\$ -	\$ (345,000)	\$ 10,329,700	\$ 345,000
Deferred Amounts:					
Premium	10,142	-	(780)	9,362	-
Total Revenue Bonds	<u>10,684,842</u>	<u>-</u>	<u>(345,780)</u>	<u>10,339,062</u>	<u>345,000</u>
Other Liabilities:					
Compensated absences	377,417	63,632	(78,364)	362,685	100,510
Net pension liabilities **	9,112,602	254,710	-	9,367,312	-
Total Other Liabilities	<u>9,490,019</u>	<u>318,342</u>	<u>(78,364)</u>	<u>9,729,997</u>	<u>100,510</u>
Total Governmental Long-Term Debt	<u>\$ 20,174,861</u>	<u>\$ 318,342</u>	<u>\$ (424,144)</u>	<u>\$ 20,069,059</u>	<u>\$ 445,510</u>
Business-Type Activities:					
Bonds Payable:					
Revenue bonds	\$ 35,970,300	\$ 10,390,000	\$ (14,430,000)	\$ 31,930,300	\$ 4,745,000
Deferred Amounts:					
Premium	1,363,214	-	(364,189)	999,025	-
Total Revenue Bonds	<u>37,333,514</u>	<u>10,390,000</u>	<u>(14,794,189)</u>	<u>32,929,325</u>	<u>4,745,000</u>
Other Liabilities:					
Compensated absences	54,736	15,804	(2,628)	67,912	42,504
Net pension liabilities **	1,790,657	-	(25,002)	1,765,655	-
Total Other Liabilities	<u>1,845,393</u>	<u>15,804</u>	<u>(27,630)</u>	<u>1,833,567</u>	<u>42,504</u>
Total Business-Type Long-Term Debt	<u>\$ 39,178,907</u>	<u>\$ 10,405,804</u>	<u>\$ (14,821,819)</u>	<u>\$ 34,762,892</u>	<u>\$ 4,787,504</u>
Total Long-Term Liabilities	<u>\$ 59,353,768</u>	<u>\$ 10,724,146</u>	<u>\$ (15,245,963)</u>	<u>\$ 54,831,951</u>	<u>\$ 5,233,014</u>

** See Note 11 regarding the restatement for the beginning balances of the net pension liability.

For governmental activities, pension liabilities 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, 2015

Note 6. Long-Term Debt, Continued

The following is a listing of revenue obligation bonds outstanding as of June 30, 2015:

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
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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
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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	1,534,700
Principal balance outstanding - Business-type	4,750,300

Excise Tax Revenue Refunding Obligations, Series 2015; original issue \$10.39 million, interest at 1.3% maturing July 1, 2019, used to refund Excise Tax Revenue Bonds, Series 2005.	10,390,000
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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	2,090,000

Total Revenue Bonds Payable	\$ 42,260,000
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Classification by type:	
Governmental-type Activities	\$ 10,329,700
Business-type Activities	31,930,300
Total Revenue Bonds Payable	\$ 42,260,000

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 6. Long-Term Debt, Continued

The City has pledged future excise taxes to repay the governmental excise tax revenue obligations as listed above. Proceeds of the bonds were used for various construction improvements and to refund and refinance various bonds and certificates of participation. The bonds are payable solely from excise taxes. Maturity dates are from July 1, 2012 to July 1, 2027. Annual principal and interest payments on the bonds are expected to require less than 2.3% to 12.9% of net excise tax revenues for each individual bond. The remaining Excise Tax Revenue Bond debt service maturities are as follows:

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 345,000	\$ 414,986	\$ 4,745,000	\$ 691,573
2017	384,699	412,708	4,560,300	610,859
2018	1,130,000	410,169	3,915,000	510,915
2019	1,135,001	378,830	4,010,000	445,143
2020	780,000	345,525	1,400,000	3,287,775
2021-2025	4,460,000	1,136,875	9,010,000	14,223,875
2026-2028	2,095,000	142,425	4,290,000	193,050
Totals	<u>\$ 10,329,700</u>	<u>\$ 3,241,518</u>	<u>\$ 31,930,300</u>	<u>\$ 19,963,190</u>

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

Total principal and interest paid during the year	\$ 5,983,946
Total excise taxes current year	\$ 16,100,256

In the year ended June 30, 2015 the City issued \$10,390,000 of excise tax revenue refunding obligations (series 2015) for the advance refunding of \$10,290,000 of excise tax revenue obligations (series 2005). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2005 series bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The refunding was undertaken to reduce total debt service payments over the next nine years by \$1,335,013 and resulted in an economic gain of \$1,053,246. The difference between the reacquisition price and the net carrying amount of the old debt was immaterial and is therefore not recorded as a deferred outflow and amortized.

Prior year defeasance of debt: 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, 2015, the amount of defeased debt outstanding but removed from the City's financial statements is not available.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 7. Interfund Receivables, Payables and Transfers

As of June 30, 2015, 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, 2015 are as follows:

Transfers out:	Transfers in:			Total
	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 7,834,370	\$ -	\$ 7,834,370
Capital Improvement Fund	88,234	-	32,633	120,867
Wastewater Fund	88,235	-	-	88,235
Total	<u>\$ 176,469</u>	<u>\$ 7,834,370</u>	<u>\$ 32,633</u>	<u>\$ 8,043,472</u>

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

Note 8. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, a public entity risk pool currently operating as a common risk management and insurance and workers' compensation program for approximately 73 members. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional \$8,000,000 per occurrence on a follow form, claims made basis. No significant insurance coverage reduction in insurance coverage occurred during the year and 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, 2015

Note 9. Retirement and Pension Plans

The City contributes to the Arizona State Retirement System and Public Safety Personnel Retirement System plans described below. The plans are component unites of the State of Arizona. At June 30, 2015, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	ASRS	PSPRS	Combined Total	Governmental Activities Total	Business-Type Activities Total
Net pension liability	\$ 7,461,507	\$ 3,671,461	\$ 11,132,968	\$ 9,367,312	\$ 1,765,655
Deferred outflows of resources	1,118,453	1,132,234	2,250,687	1,986,022	264,664
Deferred inflows of resources	1,304,787	454,808	1,759,595	1,450,837	308,758
Pension expense	590,675	706,605	1,297,280	1,157,506	139,774

The City reported \$768,294 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

Arizona State Retirement System (ASRS)

Plan description – The City participates in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date Before July 1, 2011	Initial Membership Date On or After July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years age 62 5 years age 50* any years age 65	30 years age 55 25 years age 60 10 years age 62 5 years age 50* any years age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the City was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

In addition, the City was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the ASRS.

The City's contributions for the current and 2 preceding fiscal years, all of which were equal to the required contributions, were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2013	\$ 492,528	\$ 31,233	\$ 11,532
2014	427,084	23,949	9,579
2015	509,997	27,631	5,620

Pension liability – At June 30, 2015, the City reported a liability of \$7,461,507 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The City's proportion of the net pension liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2014. The City's proportion measured as of June 30, 2014, was 0.050427 percent, which was an increase of 0.001983 percent from its proportion measured as of June 30, 2013.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2015, the City recognized pension expense for ASRS of \$590,675. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 379,216	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,304,787
Changes in proportion and differences between contributions and proportional share of contributions	229,240	-
Contributions subsequent to the measurement date	509,997	-
Total	\$ 1,118,453	\$ 1,304,787

The \$509,997 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year Ended June 30	Deferred Outflows (Inflows) of Resources
2016	\$ (61,651)
2017	(61,651)
2018	(246,833)
2019	(326,196)
2020	-
Thereafter	-

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Expected Return Arithmetic Basis		
Asset Class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	63%	7.03%	4.43%
Fixed income	25%	3.20%	0.80%
Commodities	4%	4.50%	0.18%
Real Estate	8%	4.75%	0.38%
Totals	100%		5.79%
	Inflation		3.00%
	Expected arithmetic nominal return		8.79%

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the City's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of Net pension (asset) / liability	\$ 9,430,962	\$ 7,461,507	\$ 6,392,979

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

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 seven-member board, known as the Board of Trustees, 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. The reports are available on the PSPRS website at www.psprs.com.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Benefits provided – The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date Before January 1, 2012	Initial Membership Date On or After January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Employees covered by benefit terms – At June 30, 2015, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police
Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	5
Active employees	25
Total	39

Contributions and annual OPEB cost – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements for pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active PSPRS members were required by statute to contribute 11.05 percent of their annual covered salary to the PSPRS and the City was required to contribute 22.28 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 1.16 percent.

In addition, the City was required by statute to contribute at the actuarially determined rate of 19.65 percent of annual covered payroll of retired members who worked for the City in positions that would typically be filled by an employee who contributes to the PSPRS.

For the agent plans, the City’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

	PSPRS Police
Pension	
Contributions made	\$ 390,359
 Health Insurance Premium Benefit	
Annual OPEB cost	\$ 15,257
Contributions made	\$ 15,257

Pension liability – At June 30, 2015, the City reported a net pension liability of \$3,671,461. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases.
- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Pension actuarial assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Discount rate	7.85%
Projected salary increases	4.0% to 8.0% including inflation
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometrical real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	16.00%	7.60%
Non-U.S. Equity	14.00%	8.63%
Private Equity	11.00%	9.50%
Fixed Income	7.00%	4.75%
Credit Opportunities	13.00%	8.00%
Absolute Return	4.00%	6.75%
GTAA	10.00%	5.73%
Real Assets	8.00%	5.96%
Real Estate	11.00%	6.50%
Risk Parity	4.00%	6.04%
Short Term Inv	2.00%	3.25%
Total	<u>100.00%</u>	

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Discount Rate –A Single Discount Rate of 7.85% was used to measure the total pension liability. This Single Discount Rate was based on the expected rate of return on pension plan investments of 7.85%. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	PSPRS Police		
	Total Pension		Net Pension
	Liability	Plan Fiduciary	Liability
	(a)	Net Position (b)	(a) - (b)
Balances at June 30, 2014	\$ 7,852,899	\$ 4,888,092	\$ 2,964,807
Changes for the year:			
Service cost	226,906	-	226,906
Interest on total pension liability	603,199	-	603,199
Changes of benefit terms*	141,278	-	141,278
Difference between expected and actual experience in the measurement of the pension liability	(285,532)	-	(285,532)
Changes of assumptions**	872,086	-	872,086
Contributions - employer	-	287,018	(287,018)
Contributions - employee	-	158,370	(158,370)
Net investment income	-	647,862	(647,862)
Benefit payments, including refunds of employee contributions	(564,587)	(564,587)	-
Other changes	-	(241,967)	241,967
Net changes	993,350	286,696	706,654
Balances at June 30, 2015	<u>\$ 8,846,249</u>	<u>\$ 5,174,788</u>	<u>\$ 3,671,461</u>

* Changes of benefit terms include the payout of Retro PBI and a change in the employee contribution rate

** Changes of assumptions include a decrease in the wage assumption from 4.5% to 4.0% as well as the inclusion of an assumption to explicitly value future PBI

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate – The following table presents the City's net pension liability calculated using the discount rate noted above, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease 6.85%	Current Discount Rate 7.85%	1% Increase 8.85%
PSPRS Police			
Net pension (asset) / liability	\$ 4,840,551	\$ 3,671,461	\$ 2,705,360

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS financial report.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2015, the City recognized pension expense for PSPRS of \$706,605. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 242,899
Changes in assumptions	741,875	-
Net difference between projected and actual earnings on pension plan investments	-	211,909
Contributions subsequent to the measurement date	390,359	-
Total	\$ 1,132,234	\$ 454,808

The \$390,359 reported as deferred outflows of resources related to PSPRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PSPRS pensions will be recognized in pension expense as follows:

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Year Ending June 30	Deferred Outflows (Inflows) of Resources PSPRS Police
2016	\$ 34,601
2017	34,601
2018	34,601
2019	34,601
2020	87,578
Thereafter	61,085

Agent plan OPEB actuarial assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the reported amounts' value and assumptions about the probability of events in the future. Amounts determined regarding the plans' funded status and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress for the health insurance premium benefit presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on (1) the plan as the City and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

Actuarial valuation date	June 30, 2013
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.50%

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 9. Retirement and Pension Plans, Continued

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years follows for each of the agent plans:

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
PSPRS Police	2013	\$ 15,282	1.12%	-
	2014	14,179	0.96%	-
	2015	15,257	1.16%	-

Agent plan OPEB funded status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>
Actuarial accrued liability (AAL)	\$ 140,876
Actuarial value of plan assets	<u>247,352</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (106,476)</u>
Funded ratio (actuarial value of plan assets/AAL)	175.58%
Covered payroll (active plan members)	\$ 1,651,848
UAAL as a percentage of covered payroll	-6.45%

The actuarial methods and assumptions used for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Pay, Closed
Remaining Amortization Period	22 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 10. Contingent Liabilities and Commitments

The City is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. In the opinion of City management, based on the advice of the City Attorney with respect to such litigation, such matters will not have a material adverse effect on the City's financial position at June 30, 2015.

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.

At year end, the City had the following major construction projects/commitments open:

Brewer Tlaquepaque Drainage	\$	189,683
Uptown 89A Road Improvements		692,998
WW Treatment Plant A+ Upgrade		3,075,684
WWTP Effluent Mgt Injection		299,486
		\$ 4,257,851

Note 11. Restatement Adjustment

As mentioned in Note 1 to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. This resulted in a restatement of beginning net position as follows:

	Governmental Activities	Business-type Activities/ Wastewater Fund
Restatement adjustment - implementation of GASB 68:		
Net pension liability	\$ (9,112,602)	\$ (1,905,752)
Deferred outflows - contributions made during fiscal year 2014	658,307	115,095
Total Restatement Adjustment	\$ (8,454,295)	\$ (1,790,657)

CITY OF SEDONA, ARIZONA
Notes to the Financial Statements
June 30, 2015

Note 12. Fund Balance Policy

The City has established a fund balance policy to ensure the City maintains a prudent level of financial resources to provide sufficient cash flow for daily financial needs, secure and maintain investment grade bond ratings, offset significant economic downturns and revenue shortfalls, and provide funds for unforeseen expenditures related to emergencies. The Policy sets fund balance ranges which are set for unassigned fund balances for each governmental fund type which contains operating expenditures as well as for the proprietary fund.

The unassigned fund balance range for the General Fund is set to not be less than 50% and not more than 75% of the total adopted budgeted operating expenditures of the General Fund budget. As of June 30, 2015, this reserve is \$11,121,981 and is included in the unassigned fund balance of the General Fund.

The unassigned fund balance range for the HURF Fund is set to not be less than 10% and not more than 50% of the total budgeted revenues of the HURF Fund. As of June 30, 2015, this reserve is \$374,027 and is included in the restricted fund balance of the HURF Fund.

The Capital Improvement Fund does not have a specific reserve requirement; however, at a minimum, the fiscal year-end assigned and unassigned fund balance, coupled with estimated revenues for the ensuing fiscal year, must be sufficient to fund all outstanding capital fund obligations for the next fiscal year. As of June 30, 2015, this reserve is \$3,080,082 over the minimum requirement and is included in the committed fund balance of the Capital Improvement Fund.

The fund balance range for the Wastewater Fund is set to not be less than 25% and not more than 33.3% of the total budgeted operating expenses of the Wastewater Fund which is in addition to a fund balance target equal to the average of one year of Wastewater Fund debt service requirements. As of June 30, 2015, this reserve is \$6,480,223 and is included in the unrestricted net position of the Wastewater Fund.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year
	(Measurement Date)
	2015
	(2014)
Proportion of the net pension liability (asset)	0.050427%
Proportionate share of the net pension liability (asset)	\$ 7,461,507
Covered employee payroll	\$ 4,658,483
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	160.17%
Plan fiduciary net position as a percentage of the total pension liability	69.49%

Note: The City implemented GASB 68 in fiscal year 2015. Prior year information is not available.

See accompanying notes to pension plan schedules.

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of Changes in the Net Pension Liability and Related Ratios
June 30, 2015

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
Total pension liability	
Service cost	\$ 226,906
Interest on total pension liability	603,199
Changes of benefit terms	141,278
Difference between expected and actual experience of the total net pension liability	(285,532)
Changes of assumptions	872,086
Benefit payments, including refunds of employee contributions	(564,587)
Net change in total pension liability	993,350
Total pension liability - beginning	7,852,899
Total pension liability - ending (a)	\$ 8,846,249
 Plan fiduciary net position	
Contributions - employer	\$ 287,018
Contributions - employee	158,370
Net investment income	647,862
Benefit payments, including refunds of employee contributions	(564,587)
Other (net transfer)	(241,967)
Net change in plan fiduciary net position	286,696
Plan fiduciary net position - beginning	4,888,092
Plan fiduciary net position - ending (b)	\$ 5,174,788
 Net pension liability - ending (a) - (b)	\$ 3,671,461
 Plan fiduciary net position as a percentage of the total pension liability	58.50%
 Covered employee payroll	\$ 1,651,848
 Net pension liability as a percentage of covered-employee payroll	222.26%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of Contributions
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)
	2015 (2014)
Statutorily required contribution	\$ 509,997
Contributions in relation to the contractually required contribution	\$ (509,997)
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 4,658,483
Contributions as a percentage of covered-employee payroll	10.95%

Note: The City implemented GASB 68 in fiscal year 2015. Prior year information is not available.

Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date)
	2015 (2014)
Actuarially determined contribution	\$ 287,018
Contributions in relation to the actuarially determined contribution	\$ (287,018)
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$ 1,651,848
Contributions as a percentage of covered-employee payroll	17.38%

Note: The City implemented GASB 68 in fiscal year 2015. Information prior to 2015 is not available.

See accompanying notes to pension plan schedules.

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Notes to Pension Plan Schedules
June 30, 2015

Note 1. Actuarially Determined Contribution Rates

Actuarially determined contribution rates for PSPRS are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for unfunded liabilities; 20 years for excess
Asset valuation method	7-Year smoothed market; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was 7.85%
Projected salary increases	In the 2013 actuarial valuation, the projected salary increases were 4.5%-8.5%
Wage growth	In the 2013 actuarial valuation, wage growth was 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females)

CITY OF SEDONA, ARIZONA
Required Supplementary Information

Schedule of Agent OPEB Plan Funding Progress
June 30, 2015

Public Safety Personnel Retirement System Health Insurance Premium Benefit						
Valuation Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	Unfunded AAL As a Percentage of Covered Payroll [(b)-(a)] / (c)
June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	
2012	\$ -	\$ 138,890	138,890	0.0%	\$ 1,339,699	10.37%
2013	-	155,634	155,634	0.0%	1,204,424	12.92%
2014	247,352	140,876	(106,476)	175.58%	1,651,848	0.00%
2015	**	**	**	**	**	**

** information not available

Notes to Schedule of Agent OPEB Plans' Funding Progress

Note 1. Factors that Affect the Identification of Trends

Beginning in fiscal year 2014, PSPRS established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 564,387	\$ 564,387	\$ 1,210,923	\$ 646,536
Interest	30,000	30,000	27,196	(2,804)
Other	460,000	460,000	-	(460,000)
Total revenues	<u>1,054,387</u>	<u>1,054,387</u>	<u>1,238,119</u>	<u>183,732</u>
EXPENDITURES				
Capital outlay	<u>5,693,269</u>	<u>5,693,269</u>	<u>3,298,416</u>	<u>2,394,853</u>
Total expenditures	<u>5,693,269</u>	<u>5,693,269</u>	<u>3,298,416</u>	<u>2,394,853</u>
Excess of revenues				
Over (Under) expenditures	<u>(4,638,882)</u>	<u>(4,638,882)</u>	<u>(2,060,297)</u>	<u>2,578,585</u>
Other Financing Sources (Uses):				
Transfers out	(137,554)	(137,554)	(120,867)	16,687
Transfers in	<u>5,941,364</u>	<u>5,941,364</u>	<u>7,834,370</u>	<u>1,893,006</u>
Total other financing Sources (Uses)	<u>5,803,810</u>	<u>5,803,810</u>	<u>7,713,503</u>	<u>1,909,693</u>
Net change in fund balances	1,164,928	1,164,928	5,653,206	4,488,278
Fund balance, beginning of year	<u>(1,164,928)</u>	<u>(1,164,928)</u>	<u>2,423,859</u>	<u>3,588,787</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,077,065</u>	<u>\$ 8,077,065</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 5,998,000	\$ 5,998,000	\$ 5,556,941	\$ (441,059)
Capacity fees	256,000	256,000	533,054	277,054
Taxes	3,540,000	3,540,000	4,046,986	506,986
Recovery of sales taxes	75,000	75,000	-	(75,000)
Investment earnings	181,016	181,016	73,193	(107,823)
Other income	11,900	11,900	3,390	(8,510)
Total revenues	10,061,916	10,061,916	10,213,564	151,648
Expenses				
Wastewater Administration:				
Salaries, wages and benefits	687,026	687,026	745,534	(58,508)
Services supplies and other	419,369	419,369	399,635	19,734
Wastewater Construction	4,477,866	4,477,866	2,467,348	2,010,518
Wastewater Treatment Plant:				
Salaries, wages and benefits	656,853	656,853	694,539	(37,686)
Services supplies and other	2,060,163	2,060,163	1,516,015	544,148
Debt service	5,157,363	5,157,363	6,272,120	(1,114,757)
Total expenses	13,458,640	13,458,640	12,095,191	1,363,449
Excess (deficiency) of revenues over expenses	(3,396,724)	(3,396,724)	(1,881,627)	1,515,097
Other Financing Sources (Uses)				
Debt issues	-	-	10,390,000	10,390,000
Payment to refunding bond escrow agent	-	-	(10,290,000)	
Transfers out	(85,081)	(85,081)	(88,235)	(3,154)
Total other financing sources (uses)	(85,081)	(85,081)	11,765	10,386,846
Change in net position	(3,481,805)	(3,481,805)	(1,869,862)	11,901,943
Net position, beginning of year	3,481,805	3,481,805	31,049,645	(27,567,840)
Restatement adjustment	-	-	(1,790,657)	1,790,657
Net position, end of year	\$ -	\$ -	\$ 27,389,126	\$ (15,665,897)

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

Net position, end of year, budgetary basis	27,389,126
Adjustments to reconcile to net position:	
Adjustment for differences reported in previous years	39,340,289
Adjustments for current year:	
Depreciation	(2,571,405)
Capital outlay	2,332,121
Principal paid on long term debt	14,430,000
Debt issues	(10,390,000)
Issuance costs	(90,679)
Net position, end of year	\$ 68,648,795

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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.

Capital Project Funds

- 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.
- 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.

CITY OF SEDONA, ARIZONA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

	Special Revenue			Capital Project		Total Nonmajor Governmental Funds
	Grants	Summit II CFD	Fairfield CFD	Arts	Development Impact Fee	
ASSETS						
Cash	\$ 373,472	\$ 275,896	\$ 942,978	\$ 55,427	\$ 3,108,965	\$ 4,756,738
Receivables:						
Taxes	-	578	148,752	-	-	149,330
Intergovernmental	71,171	-	-	-	-	71,171
Total assets	<u>\$ 444,643</u>	<u>\$ 276,474</u>	<u>\$ 1,091,730</u>	<u>\$ 55,427</u>	<u>\$ 3,108,965</u>	<u>\$ 4,977,239</u>
LIABILITIES						
Liabilities:						
Accounts payable	\$ 10,285	\$ -	\$ -	\$ -	\$ 60,147	\$ 70,432
Unearned revenues	270,174	-	-	-	-	270,174
Total liabilities	<u>280,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,147</u>	<u>340,606</u>
Deferred Inflows of Resources						
Unavailable revenue - taxes	-	-	28,936	-	-	28,936
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>28,936</u>	<u>-</u>	<u>-</u>	<u>28,936</u>
Fund Balances:						
Restricted for:						
Public safety	164,184	-	-	-	-	164,184
Community services	-	276,474	1,062,794	-	-	1,339,268
Capital outlay	-	-	-	-	3,048,818	3,048,818
Committed to:						
Community services	-	-	-	55,427	-	55,427
Total fund balances	<u>164,184</u>	<u>276,474</u>	<u>1,062,794</u>	<u>55,427</u>	<u>3,048,818</u>	<u>4,607,697</u>
Total liabilities, deferred inflows of of resources, and fund balances	<u>\$ 444,643</u>	<u>\$ 276,474</u>	<u>\$ 1,091,730</u>	<u>\$ 55,427</u>	<u>\$ 3,108,965</u>	<u>\$ 4,977,239</u>

CITY OF SEDONA, ARIZONA
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

	Special Revenue			Capital Project		Total Nonmajor Governmental Funds
	Grants	Summit II CFD	Fairfield CFD	Arts	Development Impact Fee	
REVENUES:						
Taxes	\$ -	\$ 53,665	\$ 119,816	\$ -	\$ -	\$ 173,481
Intergovernmental	209,764	-	-	-	-	209,764
Contributions/donations	23,711	-	-	-	-	23,711
Impact fees	-	-	-	-	216,039	216,039
Investment earnings	-	765	1,321	161	24,522	26,769
Total revenues	233,475	54,430	121,137	161	240,561	649,764
EXPENDITURES:						
Current:						
Public safety	143,815	-	-	-	-	143,815
Community services	52,324	-	-	43,974	-	96,298
Capital outlay	-	-	-	-	247,614	247,614
Total expenditures	196,139	-	-	43,974	247,614	487,727
Excess of revenues						
Over (under) expenditures	37,336	54,430	121,137	(43,813)	(7,053)	162,037
Other Financing Sources (Uses):						
Transfers in	-	-	-	32,633	-	32,633
Total other financing sources (uses):	-	-	-	32,633	-	32,633
Net change in fund balances	37,336	54,430	121,137	(11,180)	(7,053)	194,670
Fund balances, beginning of year	126,848	222,044	941,657	66,607	3,055,871	4,413,027
Fund balances, end of year	\$ 164,184	\$ 276,474	\$ 1,062,794	\$ 55,427	\$ 3,048,818	\$ 4,607,697

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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental revenue	\$ 537,000	\$ 537,000	\$ 209,764	\$ (327,236)
Contributions/donations	13,000	13,000	23,711	10,711
Total revenues	<u>550,000</u>	<u>550,000</u>	<u>233,475</u>	<u>(316,525)</u>
EXPENDITURES				
Current:				
Public safety	200,500	200,500	143,815	56,685
Public works/streets	-	-	-	-
Economic development	245,000	245,000	-	245,000
Community services	134,205	134,205	52,324	81,881
Total expenditures	<u>579,705</u>	<u>579,705</u>	<u>196,139</u>	<u>383,566</u>
Excess of revenues				
Over (Under) expenditures	(29,705)	(29,705)	37,336	67,041
Fund balance, beginning of year	<u>29,705</u>	<u>29,705</u>	<u>126,848</u>	<u>97,143</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,184</u>	<u>\$ 164,184</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, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes:				
Special CFD tax	\$ 35,000	\$ 35,000	\$ 53,665	\$ 18,665
Interest	500	500	765	265
Total revenues	<u>35,500</u>	<u>35,500</u>	<u>54,430</u>	<u>265</u>
EXPENDITURES				
Current:				
General government	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Excess of revenues Over (Under) expenditures	(64,500)	(64,500)	54,430	118,930
Fund balance, beginning of year	<u>64,500</u>	<u>64,500</u>	<u>222,044</u>	<u>157,544</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,474</u>	<u>\$ 276,474</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes:				
Special CFD tax	\$ 135,000	\$ 135,000	\$ 119,816	\$ (15,184)
Interest	7,500	7,500	1,321	(6,179)
Total revenues	<u>142,500</u>	<u>142,500</u>	<u>121,137</u>	<u>(21,363)</u>
EXPENDITURES				
Current:				
Public works/streets	\$ 950,000	\$ 950,000	\$ -	\$ 950,000
Total expenditures	<u>950,000</u>	<u>950,000</u>	<u>-</u>	<u>950,000</u>
Excess of revenues				
Over (Under) expenditures	(807,500)	(807,500)	121,137	928,637
Fund balance, beginning of year	<u>807,500</u>	<u>807,500</u>	<u>941,657</u>	<u>134,157</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,062,794</u>	<u>\$ 1,062,794</u>

CITY OF SEDONA, ARIZONA
ARTS
CAPITAL PROJECT FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ 100	\$ 100	\$ 161	\$ 61
Total revenues	<u>100</u>	<u>100</u>	<u>161</u>	<u>61</u>
EXPENDITURES				
Current:				
Community services	75,000	75,000	43,974	31,026
Total expenditures	<u>75,000</u>	<u>75,000</u>	<u>43,974</u>	<u>31,026</u>
Excess of revenues				
Over (Under) expenditures	<u>(74,900)</u>	<u>(74,900)</u>	<u>(43,813)</u>	<u>31,087</u>
Other Financing Sources (Uses):				
Transfers in	52,473	52,473	32,633	(19,840)
Total other financing Sources (Uses)	<u>52,473</u>	<u>52,473</u>	<u>32,633</u>	<u>(19,840)</u>
Net change in fund balance	(22,427)	(22,427)	(11,180)	11,247
Fund balance, beginning of year	<u>22,427</u>	<u>22,427</u>	<u>66,607</u>	<u>44,180</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,427</u>	<u>\$ 55,427</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, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Impact fees	\$ 204,000	\$ 204,000	\$ 216,039	\$ 12,039
Interest	10,845	10,845	24,522	13,677
Total revenues	<u>214,845</u>	<u>214,845</u>	<u>240,561</u>	<u>25,716</u>
EXPENDITURES				
Capital outlay	2,474,092	2,474,092	247,614	2,226,478
Total expenditures	<u>2,474,092</u>	<u>2,474,092</u>	<u>247,614</u>	<u>2,226,478</u>
Excess of revenues Over (Under) expenditures	(2,259,247)	(2,259,247)	(7,053)	2,252,194
Fund balance, beginning of year	<u>2,259,247</u>	<u>2,259,247</u>	<u>3,055,871</u>	<u>796,624</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 3,048,818</u></u>	<u><u>\$ 3,048,818</u></u>

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	81
<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	86
<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	90
<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.....	94
<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	97
<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>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>	<u>2015</u>
Governmental activities										
Net investment in capital assets	\$ 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	\$ 25,882,022
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	7,629,454
Unrestricted	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	7,530,764
Total governmental activities net assets	<u>\$ 42,338,197</u>	<u>\$ 43,560,858</u>	<u>\$ 45,720,623</u>	<u>\$ 43,415,966</u>	<u>\$ 43,035,371</u>	<u>\$ 43,904,249</u>	<u>\$ 44,271,129</u>	<u>\$ 43,146,482</u>	<u>\$ 46,211,259</u>	<u>\$ 41,042,240</u>
Business-type activities										
Net investment in capital assets	\$ 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	\$ 62,162,572
Restricted	1,175,288	1,240,451	587,477	100,818	92,327	-	-	-	-	-
Unrestricted	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	6,480,223
Total Business-type activities net assets	<u>\$ 49,882,441</u>	<u>\$ 54,371,541</u>	<u>\$ 57,372,294</u>	<u>\$ 58,654,167</u>	<u>\$ 60,146,431</u>	<u>\$ 62,005,620</u>	<u>\$ 64,757,035</u>	<u>\$ 66,061,120</u>	<u>\$ 68,599,277</u>	<u>\$ 68,642,795</u>
Primary government										
Net investment in capital assets	\$ 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	\$ 88,044,594
Restricted	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	7,629,454
Unrestricted	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	14,010,987
Total primary government net assets	<u>\$ 92,220,638</u>	<u>\$ 97,932,399</u>	<u>\$ 103,092,917</u>	<u>\$ 102,070,133</u>	<u>\$ 103,181,802</u>	<u>\$ 105,909,869</u>	<u>\$ 109,028,164</u>	<u>\$ 109,207,602</u>	<u>\$ 114,810,536</u>	<u>\$ 109,685,035</u>

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

Expenses	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities:										
General government	\$ 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	\$ 5,803,725
Public safety	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	4,208,855
Highways and streets	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	3,352,131
Community and economic dev.								1,834,854	932,919	2,200,510
Community services	648,177	789,371	1,058,508	1,037,534	815,848	1,357,077	2,004,255	974,564	426,571	557,038
Interest on long-term debt	96,414	256,297	309,469	755,167	636,191	583,175	567,901	559,672	563,158	442,506
Total governmental activities expenses	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	16,564,765
Business-type activities:										
Wastewater	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	8,285,154
Total business-type activities expenses	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	8,285,154
Total expenses	\$ 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	\$ 24,849,919
Program Revenues										
Governmental Activities:										
Charges for services:										
General government	\$ 700,352	\$ 673,643	\$ 687,888	\$ 705,542	\$ 717,236	\$ 189,417	\$ 289,510	\$ 78,355	\$ 89,021	\$ 298,015
Public safety	12,282	9,257	52,491	96,472	42,929	200,129	202,465	154,786	134,164	49,218
Highways and streets	292,668	276,348	364,474	200,290	159,839	139,856	27,583	90,065	70,943	3,870
Community and economic dev.	-	-	-	-	-	-	-	22,270	381,803	402,483
Community services	30,646	39,557	40,590	103,587	124,140	57,475	64,714	68,367	57,697	95,716
Interest on long-term debt	38,704	26,735	17,340	5,553	-	-	-	-	-	-
Operating grants and contributions	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	1,117,695
Capital grants and contributions	783,213	523,562	550,975	337,391	426,903	918,037	688,239	779,462	758,272	1,640,791
Total governmental activities program revenues	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	3,607,788
Business-type activities:										
Charges for services:										
Wastewater	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	6,093,385
Total business-type activities program revenues	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	6,093,385
Total program revenues	\$ 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	\$ 9,701,173

(continued)

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

	Fiscal Year									
	<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>	<u>2015</u>
Net (expense)/revenue										
Governmental activities	\$ (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)	\$ (12,956,977)
Business-type activities	(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)	(2,191,769)
Total net expense	<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>	<u>\$ (15,148,746)</u>
General Revenues and Other										
Changes in Net Assets										
Governmental activities:										
Taxes:										
Sales taxes	\$ 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	\$ 12,050,907
Special CFD tax	239,402	248,220	304,252	569,667	393,293	-	-	-	-	-
Franchise taxes	591,055	640,752	667,237	661,177	666,326	699,088	713,577	720,455	738,631	764,473
State urban revenue sharing	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	1,214,315
State sales taxes	1,082,364	1,039,344	1,004,970	870,023	802,470	830,562	783,825	821,056	873,126	916,721
Auto-in-lieu	654,636	603,640	585,027	593,707	551,996	543,380	476,438	483,343	508,519	534,404
Bed tax in-lieu	-	-	-	-	-	-	380,270	692,049	500,968	439,949
Investment earnings	880,958	1,044,373	1,021,475	735,011	533,139	166,085	215,593	127,098	255,995	210,386
Other	62,441	44,178	44,351	244,088	1,405,705	88,974	37,116	64,367	164,187	22,863
Transfers	-	-	-	479,856	404,856	-	-	63,842	83,626	88,235
Total governmental activities	<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>	<u>16,242,253</u>
Business-type activities:										
Sales taxes	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	4,046,986
Investment earnings	1,048,673	1,493,451	1,423,139	734,783	409,512	134,460	208,284	111,930	126,548	73,193
Transfers	-	-	-	(479,856)	(404,856)	-	-	(63,842)	(83,626)	(88,235)
Total business-type activities	<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>	<u>4,031,944</u>
Total general revenues and other changes in net assets	<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>	<u>\$ 20,274,197</u>
Change in Net Asset										
Governmental activities	\$ 2,938,305	\$ 1,222,661	\$ 2,159,765	\$ (2,304,657)	\$ (380,595)	\$ 1,259,090	\$ 366,880	\$ (904,799)	\$ 3,064,777	\$ 3,285,276
Restatement adjustment - governmental activities	-	-	-	-	-	-	-	(219,848)	-	(8,454,295)
Business-type activities	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	1,840,175
Prior period adjustment - business-type activities	-	-	-	-	-	-	-	(336,869)	-	-
Restatement adjustment - business type activities	-	-	-	-	-	-	-	(840,379)	-	(1,790,657)
Total primary government	<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>	<u>\$ (5,119,501)</u>

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

	Fiscal Year									
	<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>	<u>2015</u>
General fund										
Restricted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,626,131	\$ 1,641,845
Unassigned	9,883,448	10,163,442	10,273,435	9,468,179	11,157,413	12,403,438	12,783,938	14,295,776	15,887,042	11,121,981
Total general fund	<u>\$ 9,883,448</u>	<u>\$ 10,163,442</u>	<u>\$ 10,273,435</u>	<u>\$ 9,468,179</u>	<u>\$ 11,157,413</u>	<u>\$ 12,403,438</u>	<u>\$ 12,783,938</u>	<u>\$ 14,295,776</u>	<u>\$ 17,513,173</u>	<u>\$ 12,763,826</u>
All other governmental funds										
Restricted:										
Roads and Highways	\$ 2,537,124	\$ 2,546,580	\$ 2,426,599	\$ 1,851,271	\$ 1,689,791	\$ 1,468,145	\$ 1,213,017	\$ -	\$ -	\$ 374,027
Capital Outlay *	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	5,751,975
Debt Service	328,012	274,795	225,510	(1,923)	-	-	-	-	-	-
Other	935,630	1,162,225	1,388,547	1,810,903	1,010,866	779,272	967,320	1,113,850	1,290,549	1,503,452
Committed for:										
Arts	68,848	104,162	118,316	142,277	115,108	73,804	21,358	-	66,607	55,427
Capital Outlay *	-	-	-	-	-	4,394,902	4,443,144	-	-	5,373,908
Total all other governmental funds	<u>\$ 10,321,886</u>	<u>\$ 7,706,477</u>	<u>\$ 16,795,040</u>	<u>\$ 14,489,358</u>	<u>\$ 12,863,880</u>	<u>\$ 13,517,110</u>	<u>\$ 13,480,089</u>	<u>\$ 10,561,911</u>	<u>\$ 6,836,886</u>	<u>\$ 13,058,789</u>

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

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

CITY OF SEDONA, ARIZONA

Financial Trends

Changes in Fund Balance of Governmental Funds

Last Ten Fiscal Years (Unaudited)

(modified accrual basis of accounting)

	<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>	<u>2015</u>
Revenues										
Taxes	\$ 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	\$ 13,626,196
Licenses and permits	186,037	192,882	164,807	212,366	207,092	179,555	276,000	334,756	466,937	468,722
Intergovernmental	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	4,983,209
Contributions and donations	170	5,000	1,424	1,114	1,990	6,452	39,342	51,945	-	23,711
Charges for services	144,563	153,751	154,194	161,103	184,458	98,339	125,142	89,118	99,231	170,380
Fines and forfeitures	216,431	324,562	368,785	268,848	269,104	200,129	202,465	154,786	134,164	172,694
Impact fees	292,668	276,348	364,474	302,216	278,352	154,162	297,107	278,480	450,798	216,039
Special assessments	221,518	197,125	203,172	163,266	-	-	-	-	-	-
Investment earnings	877,907	1,037,999	1,021,475	735,012	533,139	221,786	284,730	139,854	303,098	238,592
Rents and royalties	58,222	47,796	2,077	3,362	3,698	-	-	-	-	-
Other	199,436	45,244	133,662	235,581	506,745	292,300	120,851	521,353	276,872	38,707
Total Revenues	\$ 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	\$ 19,938,250
Expenditures										
Current:										
General government	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	5,472,050
Public safety	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	3,770,380
Highways and streets	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	2,280,656
Community and economic dev.								974,564	931,020	2,193,308
Community services	646,384	807,619	970,037	1,169,314	843,316	1,654,380	1,914,570	1,803,515	389,420	550,762
Capital outlay	-	-	-	-	-	1,577,185	1,286,046	4,486,413	4,337,561	3,546,030
Debt Service:										
Principal	215,000	535,000	550,000	586,753	345,942	-	378,130	354,309	346,889	345,000
Interest and fiscal charges	49,161	209,044	262,216	689,685	570,707	562,465	547,193	538,964	561,020	418,606
Total expenditures	16,219,887	19,053,445	17,004,858	20,579,446	16,595,650	13,793,963	14,074,531	18,878,570	18,768,226	18,576,792
Revenues over (under) expenditures	713,194	(2,335,415)	254,639	(3,704,826)	(341,100)	371,336	(2,848)	(2,726,325)	(625,954)	1,361,458
Other finance sources (Uses)										
Proceeds of refunding debt issuance	-	-	-	-	-	-	-	-	1,879,700	-
Proceeds of long-term debt issuance	-	-	8,810,604	114,032	-	-	-	-	-	-
Payment to refunded debt escrow agent	-	-	-	-	-	-	-	-	(1,845,000)	-
Sale of general capital assets	-	-	-	-	-	-	-	-	-	22,863
Transfers out	(422,475)	(467,376)	(467,561)	(401,452)	(1,264,607)	(316,125)	(838,373)	857,675	(1,136,498)	(7,955,237)
Transfers in	422,475	467,376	600,874	881,308	1,669,463	316,125	838,373	(793,833)	1,220,124	8,043,472
Total other finance sources (uses)	-	-	8,943,917	593,888	404,856	-	-	63,842	118,326	111,098
Net change in fund balances	\$ 713,194	\$ (2,335,415)	\$ 9,198,556	\$ (3,110,938)	\$ 63,756	\$ 371,336	\$ (2,848)	\$ (2,662,483)	\$ (507,628)	\$ 1,472,556
Debt service as a percentage of noncapital expenditures	1.63%	3.91%	4.78%	6.20%	5.52%	4.60%	7.24%	6.21%	6.29%	5.08%

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

Tax Remitter	Fiscal Year 2015			Fiscal Year 2006		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Retail Trade	\$ 4,359,761	1	31.3%	\$ 3,621,116	1	27.1%
Hotels & Other Lodging	4,317,072	2	14.1%	3,498,901	2	26.2%
Restaurants & Bars	1,959,886	3	31.0%	2,089,324	3	15.6%
Construction	1,043,214	4	7.5%	1,644,280	4	12.3%
Insurance & Real Estate	630,449	5	4.5%	873,166	5	6.5%
Services	561,985	6	4.0%	403,291	6	3.0%
Trans/Comm/Utilities	551,710	7	4.0%	675,906	7	5.1%
All Other	491,935	8	3.5%	176,242	9	1.3%
Manufacturing				392,883	8	2.9%
Wholesale Trade				122,250	10	0.9%
	<u>\$ 13,916,012</u>		<u>100.0%</u>	<u>\$ 13,375,109</u>		<u>100.0%</u>

Source: Arizona Department of Revenue and Revenue Discovery Systems

Note 1: 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>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Occupancy Taxes</u>	<u>Franchise Tax</u>	<u>Other Taxes</u>	<u>Total</u>
2006	\$ 6,505,406	\$ 1,850,892	\$ 591,055	\$ 239,402	\$ 9,186,755
2007	6,729,836	1,703,147	640,752	248,220	9,321,955
2008	6,671,721	1,899,439	667,237	304,252	9,542,649
2009	6,380,487	1,717,057	661,177	569,667	9,328,388
2010	5,782,462	1,426,241	666,326	267,169	8,142,198
2011	6,203,878	1,472,193	699,088	163,434	8,538,593
2012	5,841,697	1,867,282	713,577	171,575	8,594,131
2013	6,999,858	1,857,455	720,455	179,081	9,756,849
2014	8,114,951	2,097,290	738,631	254,753	11,205,625
2015	9,589,003	2,659,290	764,473	439,949	13,452,715

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)

	Fiscal Year									
	<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>	<u>2015</u>
Sales Category										
Mining	\$ 2,009	\$ 64	\$ 44	\$ 17	\$ 125	\$ 62	\$ -	\$ -	\$ -	\$ -
Construction	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	1,043,214
Manufacturing	392,883	385,046	327,604	309,407	265,998	183,658	15,124	-	-	-
Transportation,										
Communication and utilities	675,906	689,975	694,121	670,573	704,133	691,194	610,278	566,849	621,539	551,710
Wholesale trade	122,250	139,891	130,121	135,271	121,420	70,613	27,402	10,290	-	-
Retail trade	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	4,359,761
Restaurants and bars	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	1,959,886
Finance, insurance and real estate	873,166	974,352	896,313	861,924	853,836	800,883	770,388	747,856	928,205	630,449
Accommodations	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	4,317,072
Services	403,291	423,789	397,286	321,006	349,848	509,518	569,619	503,248	613,061	561,985
Public administration	5,934	36,147	22,927	21,339	11,831	6,370	24,763	-	(681)	-
All other outlets	168,299	464,840	477,197	426,937	447,836	284,872	12,972	-	-	491,935
	<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>	<u>\$ 13,916,012</u>
Direct sales tax rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Transient Lodging Tax 3.5%										

Source: Arizona Department of Revenue and Revenue Discovery Systems

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>
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%
2015	3.00%	0.75%	1.300%	5.60%

Source: Arizona 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	Capital Leases	Special Assessment Bonds	Revenue Bonds	WIFA Loan	Certificates of Participation			
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
2015	10,339,062	-	-	32,929,325	-	-	43,268,387	11.17%	4,267

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

CITY OF SEDONA, ARIZONA

Debt Capacity

**Direct and Overlapping Governmental Activities Debt
(Unaudited)**

<u>Governmental Unit</u>	<u>Outstanding Debt (1)</u>	<u>Estimated Percentage Applicable (2)</u>	<u>Estimated Share of Overlapping Debt</u>
State of Arizona	\$ 77,600,490,000	0.53%	\$ 411,282,597
Coconino County	None	16.97%	None
Yavapai County	20,676,993	12.37%	2,557,744
Coconino County C.C.D.	7,775,000	16.97%	1,319,418
Yavapai County C.C.D.	43,365,000	12.37%	5,364,251
Sedona-Oak Creek Unified S.D. No. 9	50,273,036	60.28%	30,304,586
Sedona Fire District	1,909,481	60.14%	1,148,362
Subtotal overlapping debt			<u>451,976,958</u>
City of Sedona direct debt			<u>-</u>
Total direct and overlapping debt			<u>\$ 451,976,958</u>

Arizona Report of Bonded Indebtedness, Arizona State Treasurer

(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)				
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
2015	-	-	-	-	-	N/A

Special Assessment Bonds

Fiscal Year	Special Assessment				Coverage
	Collections	Principal	Interest	Total	
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
2015	-	-	-	-	N/A

Excise Tax Revenue Bonds

Fiscal Year	Excise Tax				Coverage
	Revenues	Principal	Interest	Total	
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
2015	16,100,256	4,485,000	1,498,946	5,983,946	2.69

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

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

CITY OF SEDONA, ARIZONA

Debt Capacity

Debt Limitations and Computation of Legal Debt Margin

Last Ten Fiscal Years (Unaudited)

	Fiscal Year									
	<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>	<u>2015</u>
Assessed Valuation	N/A	N/A	N/A	N/A	N/A	\$ 289,661,444	\$ 289,661,444	\$ 298,617,510	\$ 287,389,075	\$ 304,804,395
<u>20% Limitation</u>										
Debt limit equal to 20% of assessed valuation	N/A	N/A	N/A	N/A	N/A	\$ 57,932,289	\$ 57,932,289	\$ 59,723,502	\$ 57,477,815	\$ 60,960,879
Total net debt applicable to 20% limit	-	-	-	-	-	-	-	-	-	-
Legal 20% debt margin	N/A	N/A	N/A	N/A	N/A	\$ 57,932,289	\$ 57,932,289	\$ 59,723,502	\$ 57,477,815	\$ 60,960,879
<u>6% Limitation</u>										
Debt limit equal to 6% of assessed valuation	N/A	N/A	N/A	N/A	N/A	\$ 3,475,937	\$ 3,475,937	\$ 3,583,410	\$ 3,448,669	\$ 3,657,653
Total net debt applicable to 6% limit	-	-	-	-	-	-	-	-	-	-
Legal 6% debt margin	N/A	N/A	N/A	N/A	N/A	\$ 3,475,937	\$ 3,475,937	\$ 3,583,410	\$ 3,448,669	\$ 3,657,653

Note: 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.

N/A - Information not available

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
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%
2015	10,281	392,754,762	38,202	56.3	1,082	3.60%

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

Note: Median age was not available for years 2006 through 2008

Note: Unemployment was only available for the Yavapai County portion of Sedona, previous to 2015

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

Employer	2015			2006		
	Employees (1)	Rank	Percentage of Total City Employment	Employees (1)	Rank	Percentage of Total City Employment
Enchantment Resorts (location outside of City)	530	1	10.91%	390	3	6.16%
L'Auberge de Sedona Resort	323	2	6.65%	180	5	2.84%
Sedona/Oak Creek School District	184	3	3.79%	180	6	2.84%
Hilton Resort & Spa (location outside of City)	176	4	3.62%	225	4	3.55%
Pink Jeep Tours	175	5	3.60%	100	10	1.58%
Sedona Rouge	128	6	2.63%	100	9	1.58%
Los Abrigados	123	7	2.53%	500	1	7.90%
Amara Resort	107	8	2.20%			
City of Sedona	102	9	2.10%	120	8	1.89%
Diamond Resorts (formerly Sunterra Resorts)	99	10	2.04%	400	2	6.31%
Poco Diablo Resort (formerly Radisson Resort)				120	7	1.89%
	<u>1,947</u>		<u>40.08%</u>	<u>2,315</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									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government										
Management Services	23	25	25	25	18	17	18	19	20	23
Finance	5	5	5	5	5	6	5	7	7	7
Planning	4	5	5	5	6	6	6	6	6	6
Building	3	3	3	3	2	2	2	3	3	1
Other	1	1	1	1	1	1	5	5	5	2
Public Safety										
Officers	29	31	31	30	24	24	26	26	26	26
Civilians	9	8	8	10	8	10	10	10	11	7
Other Public Works										
Engineering	5	5	5	5	4	4	4	4	4	9
Other	11	11	11	11	14	14	13	13	13	9
Redevelopment	7	7	7	7	4	4	3	2	2	0
Parks and Recreation	6	6	6	7	3	2	2	2	3	2
Wastewater	8	11	11	11	11	11	10	10	10	10
Total	111	118	118	120	100	101	104	107	110	102

Source: City of Sedona, Arizona

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

Function	Fiscal Years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Government										
Building Permits Issued	507	573	553	537	593	463	472	476	500	518
Building Inspections Conducted	2,303	3,168	2,737	2,180	2,086	1,277	1,453	1,781	1,907	1,953
Police										
Physical Arrests	439	662	542	652	544	537	497	364	325	432
Parking Violations	80	87	86	40	195	149	195	587	191	317
Traffic Violations	2,475	2,296	4,589	3,772	3,310	2,617	2,268	2,340	1,145	3,827
Other Public Works										
Street Resurfacing (Miles)	1.1	2.0	4.3	3.5	-	2.4	3	3.75	2.2	2.6
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	1.1	1.3	1.2	1.1	1.1	1.2	1.1	1.1	1.2	1.1

Source: City of Sedona, Arizona

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

Function	Fiscal Year									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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	9	11	11	12	16	13	13	17	15	15
Other Public Works										
Streets (Miles)	154.5	154.5	154.5	154.5	154.4	154.4	154.4	106	106	106.17
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	8	8	8	8	136	136	147
Parks and Recreation										
Acreage	100.3	100.3	100.3	91.8 *	93.0	93.0	93.0	93.0	123.3	123.3
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	619	650	651	651	659	659	659	659	659	659
Wastewater										
Sanitary Sewers (Miles)	156.4	159.3	75.0	75.0	75.0	75	166	166	166	166
Treatment Capacity (Millions of Gallons)	2.0	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Source: City of Sedona, Arizona

* Acreage for Parks was corrected in updating GIS maps for the City during the FY2009.

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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**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, 2015, 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 November 13, 2015.

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 November 13, 2015, 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
November 13, 2015

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, 2015, and have issued our report thereon dated November 13, 2015. 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, 2015.

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
November 13, 2015

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