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2016



COMPREHENSIVE ANNUAL
Financial Report
for fiscal year ending June 30, 2016



CITY OF SEDONA, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2016

Prepared by:
Financial Services Department

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**CITY OF SEDONA, ARIZONA
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2016**

INTRODUCTORY SECTION

LETTER OF TRANSMITTAL	1
ORGANIZATIONAL CHART	8
LIST OF ELECTED AND APPOINTED OFFICIALS	9
GFOA CERTIFICATE OF ACHIEVEMENT	10

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	11
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	14
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	23
STATEMENT OF ACTIVITIES	24
BALANCE SHEET – GOVERNMENTAL FUNDS	25
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION – GOVERNMENTAL FUNDS	26
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	27
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS	28
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS	29
STREETS FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	30
STATEMENT OF NET POSITION – PROPRIETARY FUNDS	31
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – PROPRIETARY FUNDS	32
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS	33
NOTES TO THE BASIC FINANCIAL STATEMENTS	35

**CITY OF SEDONA, ARIZONA
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2016**

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY – COST SHARING PENSION PLANS	70
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS – AGENT PENSION PLANS	71
SCHEDULE OF CITY PENSION CONTRIBUTIONS	72
NOTES TO PENSION SCHEDULES	73
SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS	74
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS	75
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	76
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS	77
CAPITAL IMPROVEMENT FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	78
GRANTS AND DONATIONS FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	79
SUMMIT II COMMUNITY FACILITIES DISTRICT FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	80
FAIRFIELD COMMUNITY FACILITIES DISTRICT – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	81
ART IN PUBLIC PLACES FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	82
DEVELOPMENT IMPACT FEE FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL	83
WASTEWATER FUND – SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (BUDGETARY BASIS)	84

**CITY OF SEDONA, ARIZONA
TABLE OF CONTENTS
FISCAL YEAR ENDED JUNE 30, 2016**

STATISTICAL SECTION

FINANCIAL TRENDS

NET POSITION BY COMPONENT	86
CHANGES IN NET POSITION	88
FUND BALANCES OF GOVERNMENTAL FUNDS	92
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS	93

REVENUE CAPACITY

GENERAL GOVERNMENT PRINCIPAL SALES TAX REMITTERS	95
GENERAL GOVERNMENT TAX REVENUES BY SOURCE	96
SALES TAX COLLECTIONS BY CATEGORY	97
DIRECT AND OVERLAPPING SALES TAX RATES	99
RATIOS OF OUTSTANDING DEBT BY TYPE	100
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT	101
PLEGGED-REVENUE COVERAGE	102
DEBT LIMITATIONS AND COMPUTATION OF LEGAL DEBT MARGIN	103

DEMOGRAPHIC AND ECONOMIC INFORMATION

DEMOGRAPHIC AND ECONOMIC STATISTICS	104
PRINCIPAL EMPLOYERS	105

OPERATING INFORMATION

FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION	106
OPERATING INDICATORS BY FUNCTION	107
CAPITAL ASSETS STATISTICS BY FUNCTION	108

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INTRODUCTORY SECTION

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Sedona, AZ 86336
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January 11, 2017

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

We are pleased to submit to you the fiscal year 2016 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, CliftonLarsonAllen LLP, 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, 2016, 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 unmodified opinion that the financial statements for the City of Sedona, Arizona for the fiscal year ended June 30, 2016, 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 10,388. 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. Tourist activity has returned to and exceeded 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 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 the recent recessionary period. Overall, fiscal year 2016 was a successful year. Revenues exceeded conservative budget estimates by approximately four percent and were budgeted at an eight percent increase for fiscal year 2017.

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 65 percent of the General Fund revenues. The City's sales tax rate is currently at three percent. The City subsidizes the Wastewater Enterprise Fund with 30 percent of its sales tax revenues to help pay most of the debt service on debt the City has incurred for the original construction as well as upgrades to the capacity at the plant and extensions of the sewer lines. Sales tax revenues are expected to increase moderately over the next several years.

The City also has a 3.5 percent bed tax (transient occupancy), which is allocated to the General Fund. The bed tax was increased from 3 percent to 3.5 percent effective January 1, 2014. State statutes require the proceeds from the 0.5 percent rate increase be used exclusively for the promotion of tourism. The City Council has committed 55 percent of the proceeds of the bed tax to the promotion of tourism, including 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. Since the program began, it has exceeded all expectations. For fiscal year 2016, bed tax revenue exceeded the prior year actuals by 13 percent.

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 12 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 Citizens 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 2016, 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 2016:

Police

- 56 percent reductions in vehicle burglaries.
- 32 percent reduction in identity thefts.
- 3 percent reduction in assaults.
- Received grant funding for speed signs and overtime to concentrate on speed related and DUI proactive patrols.
- Entered into an agreement with CenturyLink Management Services to upgrade the communication center's current telephone and 9-1-1 systems.
- Police volunteers donated over 3,500 hours to provide prisoner/evidence transportation, house watch, crime scene/traffic control assistance and special event services.

Public Works

- Assisted the Arts & Culture Division in completing the design and construction of art in the Schnebly Hill roundabout.
- Completed the uptown paving, uptown sidewalk additions, uptown traffic signal and cabinets, and Navoti/Calle Del Sol intersection streets projects.
- Completed design and construction of the Soldiers Wash Phase 3 project, and Coffee Pot Phase 1 drainage project.
- Completed the Effluent Management Implementation Plan wastewater project.
- Completed the Sugarloaf Trailhead parking lot, and shade structures and playground improvement Parks & Recreation Department projects.

Management Services

- Refinanced a portion of the City's Series 2007 bonds resulting in a present value savings of almost \$992,000.
- Completed upgrade and redesign of the City's website.
- Developed new online GIS maps for public and for City staff.
- Developed and implemented a Human Rights Ordinance.

Community Development

- Issued a total of 87 commercial construction permits including 3 new projects and 84 remodels.
- Issued a total of 134 residential construction permits including 24 new residential units and 110 remodels.
- Completed the Soldiers Pass and Western Gateway Community Focus Area (CFA) planning efforts.
- Developed a conceptual master plan for the Ranger Station Park site on Brewer Road.
- 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.
- Initiated a comprehensive update of the Sedona Land Development Code.
- Initiated a comprehensive update of the Sign Code.
- Over 500 code enforcement cases processed.

Community Development (Continued)

- Completed over 70 short-term rental investigations.
- Completed 2,086 building inspections.

Parks & Recreation

- Obtained \$122,881 in grant funding.
- Offered 85 days of events in one year.
- Facilitated the first three successful outside agency rentals for alcohol approved events at the park.
- Brought swim lesson instruction back in-house.
- Received \$68,773 through sponsorships, donations and volunteer hours.
- Brought back youth Grasshopper Basketball at West Sedona School.

Wastewater

- Collected and processed approximately 1.1 million gallons per day of wastewater.
- 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.
- Modernized some facilities including Bear Wallow pump station and the centrifuge sludge drying facility.
- Inspected and cleaned approximately 27,000 feet of sewer mains.
- Received approximately \$112,000 rebate from APS for energy saving measures incorporated into the wastewater system.
- Upgraded system for reporting permit compliance to Arizona Department of Environmental Quality.
- Conducted plant tours for students and the public.
- Participated in the Verde Valley SciTech Festival and conducted tours of the Sedona Wetlands.

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.

The City Council established the current list of priorities as part of the fiscal year 2016 budget process. In October 2015, a mid-year review was completed and priorities were ranked to help clarify which priorities staff should attempt to complete first. In January 2016, the list was reviewed again in light of the fiscal year 2017 budget preparation. At that time, Council further categorized priorities as either "high," "medium," or "low."

Some of the in-progress priorities include implementation of an economic development program, updating the Land Development Code, developing several community focus area (CFA) specific area plans, 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, 2015. This was the 17th 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,



Justin Clifton
City Manager

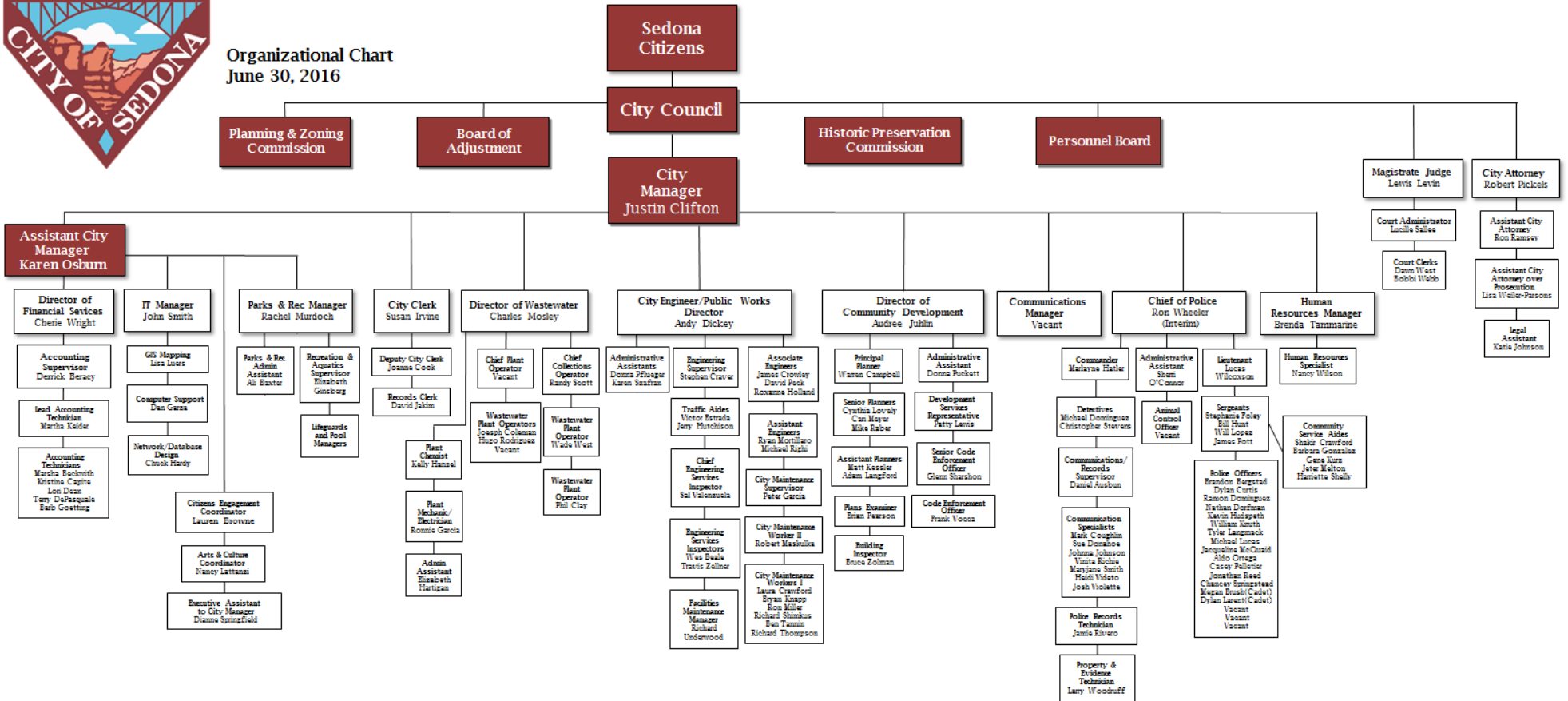


Karen Osburn
Assistant City Manager

CITY OF SEDONA, ARIZONA ORGANIZATIONAL CHART JUNE 30, 2016



Organizational Chart
June 30, 2016



**CITY OF SEDONA, ARIZONA
LIST OF ELECTED AND APPOINTED OFFICIALS
JUNE 30, 2016**

Sandy Moriarty
Mayor

John Martinez
Vice Mayor

Councilmembers

Scott Jablow

Tom Lamkin

Jon Thompson

Jessica Williamson

Vacant Position

Justin Clifton
City Manager

Karen Osburn
Assistant City Manager

Cherie Wright
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, 2015

Executive Director/CEO

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Sedona, Arizona
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 the City of Sedona, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' 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. 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 auditors' 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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Streets Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2016, the City of Sedona, Arizona recorded multiple prior period adjustments to properly state beginning fund balance and net position for previously recorded assets, deferred inflows of resources and liabilities that were misstated. Additionally, the City recorded a restatement of net position in the Governmental Activities, Business-type Activities, and Wastewater Proprietary Fund for the change in accounting method used to allocate the net pension liability. See Note 3.E. for further information on the prior period adjustments and restatements. Our auditors' opinion was not modified with respect to the prior period adjustments and restatements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension schedules, and OPEB schedules as listed in the table of contents, 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 combining and individual nonmajor fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Mayor and the City Council
City of Sedona, Arizona

The combining and individual nonmajor fund financial statements and 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 combining and individual nonmajor fund financial statements and 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 it.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 11, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

This section of the City of Sedona, Arizona's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and the basic financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal years 2016 and 2015 are as follows:

- ◆ The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year 2016 and 2015 by \$118.6 million and \$111.0 million (net position), respectively. Of these amounts, \$18.7 million and \$14.9 million (unrestricted net position), respectively, may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ Total net position increased by \$7.6 million during fiscal year 2016 and increased \$5.3 million during fiscal year 2015.
- ◆ As of June 30, 2016 and 2015, the City's governmental funds reported combined ending fund balances of \$26.3 million and \$26.4 million, respectively, which were comprised of nonspendable, restricted, committed, assigned, and unassigned fund balances.
- ◆ At the close of fiscal year 2016, unassigned fund balance for the General Fund was \$7.6 million, or 51.1% of actual operating expenditures.
- ◆ During fiscal year 2016, the City's total bonded debt decreased by \$4.6 million due to scheduled principal payments and the issuance of revenue refunding bonds. During the fiscal year, the City issued \$8.0 million in revenue bonds to refund the Series 2007 Excise Tax Revenue Bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements, and
3. Notes to basic financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resource, liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported at the time the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected court fines and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include basic services such as general government, public safety, and streets. The business-type activities of the City include wastewater operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also three legally separate entities: the Sedona Wastewater Municipal Property Corporation (SWMPC) and the Fairfield and Summit II Community Facilities Districts (Districts). Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationship to the City.

The government-wide financial statements can be found beginning on page 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources 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 City's funds can be divided into the following two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds account for 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 near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in determining what financial resources are available in the near future to fund the City's programs.

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

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The City maintains several individual governmental funds organized according to their type (general fund, special revenue, and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Streets Fund 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 the non-major governmental funds is provided in the form of combining statements in a separate section of this report. The basic governmental fund financial statements begin on page 25 of this report.

Proprietary Funds – Proprietary funds are generally used to account for services for which the City charges customers. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains only one type of proprietary fund – enterprise funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for the wastewater operations of the City.

The proprietary fund financial statements begin on page 31 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements. The notes to basic financial statements begin on page 35 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes and other schedules, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees, including the Schedule of the City's Proportionate Share of the Net Pension Liability, Schedule of Changes in the City's Net Pension Liability and Related Ratios, Schedule of City Pension Contributions and Schedule of Agent Other Post-Employment Benefits (OPEB) Plans' Funding Progress. This information can be found beginning on page 70 of this report.

Combining Statements

The combining statements referred to earlier, in connection with non-major governmental funds are presented immediately following the required supplementary information on pensions and OPEB.

Government-Wide Financial Analysis

Net Position

While this document contains information about the funds used by the City to provide services to our citizens, the Statement of Net Position and the Statement of Activities serve to provide an answer to the question of how the City, as a whole, did financially throughout the year. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year revenues and expenses regardless of when the cash is received or paid.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

These two statements report the City's net position and the changes in net position. The change in net position is important because it tells the reader whether the financial position of the City as a whole has improved or diminished. However, in evaluating the overall net position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

Net position may serve as a useful indicator of a government's financial position. Net position was \$118.6 million and \$111.0 million at the close of the fiscal year 2016 and 2015, respectively.

**City of Sedona, Arizona
Condensed Statement of Net Position
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total	
	(Restated)		(Restated)		(Restated)	
	2016	2015	2016	2015	2016	2015
Current and Other Assets	\$ 29,648,598	\$ 28,607,315	\$ 20,793,889	\$ 19,146,752	\$ 50,442,487	\$ 47,754,067
Capital Assets:						
Non-depreciable	12,046,988	9,623,400	20,146,583	14,845,752	32,193,571	24,469,152
Depreciable	25,985,064	24,857,119	78,433,020	80,484,021	104,418,084	105,341,140
Total Assets	67,680,650	63,087,834	119,373,492	114,476,525	187,054,142	177,564,359
Deferred Outflows of Resources	2,804,016	2,282,515	341,152	408,923	3,145,168	2,691,438
Other Liabilities	2,816,344	1,662,754	7,195,986	2,206,680	10,012,330	3,869,434
Noncurrent Liabilities:						
Net Pension Liability	10,730,281	10,271,567	937,607	861,400	11,667,888	11,132,967
Due Within One Year	763,053	473,255	4,610,239	4,792,699	5,373,292	5,265,954
Due in More Than One Year	10,162,053	10,256,237	33,078,767	36,950,275	43,240,820	47,206,512
Total Liabilities	24,471,731	22,663,813	45,822,599	44,811,054	70,294,330	67,474,867
Deferred Inflows of Resources	1,225,257	1,608,961	79,180	150,631	1,304,437	1,759,592
Net Position:						
Net Investment in Capital Assets	27,547,603	25,882,022	65,972,609	62,473,972	93,520,212	88,355,994
Restricted	6,399,927	7,782,359	-	-	6,399,927	7,782,359
Unrestricted	10,840,148	7,433,194	7,840,256	7,449,791	18,680,404	14,882,985
Total Net Position	\$ 44,787,678	\$ 41,097,575	\$ 73,812,865	\$ 69,923,763	\$ 118,600,543	\$ 111,021,338

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, equipment, and infrastructure) less depreciation and any related debt used to acquire those assets, of \$93.5 million (79%) and \$88.4 million (80%) for the fiscal years 2016 and 2015, respectively. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for appropriation. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the City's net position, \$6.4 million (5%) for fiscal year 2016 and \$7.8 million (7%) for fiscal year 2015, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position for fiscal years 2016 and 2015, \$18.7 million (16%) and \$14.9 million (13%) respectively, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of both the current and previous fiscal years, the City was able to report positive balances in all three categories of net position for the governmental activities and business-type activities.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Changes in Net Position

The City's net position increased by \$7.6 million and \$5.3 million during the fiscal years 2016 and 2015, respectively. These changes are explained in the governmental and business-type activities discussion below.

**City of Sedona, Arizona
Statement of Activities
Fiscal Years Ended June 30, 2016 and June 30, 2015**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2016	Restated 2015	2016	Restated 2015	2016	Restated 2015	
REVENUES							
Program Revenues:							
Charges for Services	\$ 815,294	\$ 869,487	\$ 6,349,506	\$ 6,093,385	\$ 7,164,800	\$ 6,962,872	2.9 %
Operating Grants and Contributions	1,056,235	1,119,695	-	-	1,056,235	1,119,695	(5.7)
Capital Grants and Contributions	1,177,321	1,640,791	-	-	1,177,321	1,640,791	(28.2)
General Revenues:							
Local Taxes	19,416,918	12,817,635	-	4,046,986	19,416,918	16,864,621	15.1
State Revenue Sharing	2,734,108	3,154,377	-	-	2,734,108	3,154,377	(13.3)
Investment Earnings	307,030	210,386	179,734	73,193	486,764	283,579	71.7
Gain on Sale of Capital Assets	11,806	22,863	-	-	11,806	22,863	(48.4)
Other	78,629	-	-	-	78,629	-	N/A
Total Revenues	25,597,341	19,835,234	6,529,240	10,213,564	32,126,581	30,048,798	
EXPENSES							
General Government	6,564,561	5,802,810	-	-	6,564,561	5,802,810	13.1
Public Safety	4,353,279	4,208,855	-	-	4,353,279	4,208,855	3.4
Public Works and Streets	3,025,476	3,352,131	-	-	3,025,476	3,352,131	(9.7)
Culture and Recreation	1,810,593	557,038	-	-	1,810,593	557,038	225.0
Community and Economic Development	1,336,234	2,200,510	-	-	1,336,234	2,200,510	(39.3)
Interest on Long-Term Debt	319,545	442,506	-	-	319,545	442,506	(27.8)
Wastewater	-	-	7,137,688	8,159,579	7,137,688	8,159,579	(12.5)
Total Expenses	17,409,688	16,563,850	7,137,688	8,159,579	24,547,376	24,723,429	
CHANGE IN NET POSITION							
INCOME BEFORE TRANSFERS	8,187,653	3,271,384	(608,448)	2,053,985	7,579,205	5,325,369	42.3
Transfers	(4,497,550)	88,235	4,497,550	(88,235)	-	-	
CHANGE IN NET POSITION	3,690,103	3,359,619	3,889,102	1,965,750	7,579,205	5,325,369	
Net Position - Beginning of Year, Restated	41,097,575	37,737,956	69,923,763	67,958,013	111,021,338	105,695,969	5.0
NET POSITION - END OF YEAR	<u>\$ 44,787,678</u>	<u>\$ 41,097,575</u>	<u>\$ 73,812,865</u>	<u>\$ 69,923,763</u>	<u>\$ 118,600,543</u>	<u>\$ 111,021,338</u>	

Governmental Activities – In fiscal year 2016, governmental activities increased the net position of the City by \$3.7 million. Total revenues increased \$5.8 million (29%) from fiscal year 2015. Program revenues, which are comprised of charges for services, operating and capital grants and contributions, decreased \$0.6 million or (16%) primarily due to a decrease in capital grants and contributions offset by an increase in operating grants and contributions. General revenues, which include local taxes, state revenue sharing, investment income and other revenues, increased \$6.3 million or (39%) due to an increase in tax revenue as noted below.

Local taxes increased by \$6.6 million (51%) primarily due to an improved economy which included increased tourism and consumer spending and due a change in how the City recorded the transfer of sales tax revenues to the Wastewater Fund. In previous years, the City recorded the tax revenue directly in the Wastewater Fund and in the current year, the revenue was recorded in the General Fund and then transferred to the Wastewater Fund. For budgetary reporting purposes, the tax revenues were recorded directly in the Wastewater Fund.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

State shared revenues decreased \$0.4 million (12%) compared to fiscal year 2015. The decrease was largely due to the reclassification of in-lieu taxes to taxes revenue.

Capital grants and contributions decreased \$0.5 million (28%) due to a decline in county revenue related to the reconstruction of Airport Road in the prior fiscal year.

Expenses increased \$0.8 million, or 5%. The changes in expenses were primarily due to reclassifications between functional categories. Planning division expenses were reclassified from community and economic development to general government. Facilities maintenance division expenses were reclassified from public works and streets to general government. Parks maintenance division expenses were reclassified from public works and streets to culture and recreation. Various community service contracts were reclassified from general government to public safety and culture and recreation.

Business-Type Activities – Business-type activities increased the City's net position by \$3.9 million in fiscal year 2016. Income from operations increased \$0.3 million and expenses decreased by \$1.0 million. Overall, the increase in revenues was related to an increase in the wastewater rates approved by the City Council, as well as one-time incentive payments received from the electric company for energy-efficiencies including in wastewater projects. The decrease in expenses was primarily related to a decrease in interest expense related to the capitalization of interest on construction projects, as well as a reduction in interest costs due to a bond refunding occurring late in the prior fiscal year that resulted in a savings of \$1.3 million over nine years.

Financial Analysis of the City's Funds

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

Governmental Funds – Funds are created and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Activity not required to be reported in a separate fund is included in the General Fund.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The major governmental funds reported by the City include the General Fund, Streets Fund and Capital Improvement Fund.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$26.3 million, a decrease of \$0.1 million, or a 0.5% decrease in comparison with the prior year. The combined ending fund balances for fiscal year 2015 were \$26.4 million, as restated.

The General Fund is the chief operating fund of the City. At June 30, 2016, the unassigned fund balance of the General Fund was \$7.6 million, or 29.0% of the combined governmental fund balance. The unassigned fund balance of the General Fund at June 30, 2015 was \$11.4 million, as restated, or 43.4% of the combined governmental fund balance. As a measure of the General Fund's liquidity, it may be useful to compare General Fund unassigned fund balance to General Fund expenditures. The General Fund unassigned balance of \$7.6 million represents 51.1% of General Fund expenditures.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The General Fund fund balance decrease of \$3.6 million from fiscal year 2015 is the result of increased transfers out to the Capital Improvements Fund and Streets Fund for ongoing streets and maintenance projects as well as capital improvements. Additionally, tax revenue increased \$5.8 million which is a combination of sales, franchise and in lieu tax revenues. Expenditures also increased from the prior year by \$0.6 million, resulting primarily from an increase in the amount dedicated to the destination marketing program equivalent to 55% of the bed tax collections.

The Streets Fund is used to account for the state shared revenues restricted for street and highway purposes. The fund balance at June 30, 2016 was \$0.7 million and was partially assigned due to unspent transfers from the General Fund. The Streets Fund received a transfer of \$506,500 from the General Fund to supplement the cost of street improvement projects. The Streets Fund increased \$0.3 million due to an increase in state shared revenues and the transfer from the General Fund.

The Capital Improvement Fund increased \$3.8 million, mainly due to the transfer from the General Fund which was made as part of the City's fund balance policy to move excess capacity to the Capital Improvement Fund from the General Fund. In the current year the City was able to transfer \$6.9 million from the General Fund to the Capital Improvement Fund for ongoing capital projects.

The nonmajor governmental funds reported a decrease in fund balance of \$0.6 million. This change was a result of increases in capital outlay expenditures for capital improvements. Additionally, intergovernmental revenues decreased within the Grants and Donations Fund.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

At the end of the fiscal year, the unrestricted net position was \$8.1 million. For fiscal year 2016 the change in net position for the Wastewater Fund was \$3.9 million. The increase was primarily due to an increase in tax revenue transferred in and a decrease in interest expense on outstanding bonded indebtedness.

General Fund Budgetary Highlights

During the year there were changes in appropriations between the original and final budget, however, none were significant. They mostly represented transfers of budget from the merit pool in the General Services budget to departments and miscellaneous transfers between departments. The most significant was a transfer from contingency for \$38,000 to help cover the increase in the amount dedicated to the destination marketing program equivalent to 55% of the bed tax collections.

The actual expenditures reflected a favorable variance to the final budget in the amount of \$1.1 million, or 7 percent less than the total appropriations. In fiscal year 2015 actual expenditures showed a favorable variance to final budget in the amount of \$0.5 million (3.6 percent less).

Sales tax revenues exceeded the budget amount by \$1.4 million primarily as a result of increased tourism and consumer spending. Public works expenditures were under the budgeted amount by \$0.3 million primarily due to savings in utility costs for added facilities that were not as high as anticipated and the costs for improvements to facilities were lower than anticipated. Community development expenditures were under the budgeted amount by \$0.3 million primarily due to delays in the updates to the land development code and the implementation of the economic development program.

Total revenues reflect a positive variance to budget in the amount of \$1.6 million (9.7 percent) for fiscal year 2016 and a positive variance of \$2.1 million (13.6 percent) in fiscal year 2015.

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Capital Asset and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2016 and 2015 amount to \$136.6 million and \$129.8 million, respectively (net of accumulated depreciation). The net increase in capital assets (net of accumulated depreciation) was \$6.8 million, due primarily to an increase in construction in progress for ongoing capital improvements for the wastewater system, street improvements, drainage improvements and park projects. Capital assets include land and improvements, building and improvements, wastewater systems, machinery, vehicles and equipment and construction in progress.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

**City of Sedona, Arizona
Capital Assets, Net of Depreciation
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2016	2015	2016	(Restated) 2015	2016	(Restated) 2015	
Land	\$ 8,790,846	\$ 8,268,414	\$ 11,159,413	\$ 11,159,413	\$ 19,950,259	\$ 19,427,827	2.7 %
Construction in Progress	3,256,142	1,354,986	8,987,170	3,687,832	12,243,312	5,042,818	142.8
Land Improvements	4,455,252	4,537,115	-	-	4,455,252	4,537,115	(1.8)
Buildings and Improvements	4,884,815	4,742,988	-	-	4,884,815	4,742,988	3.0
Wastewater System	-	-	78,064,632	80,020,707	78,064,632	80,020,707	(2.4)
Machinery, Equipment and Vehicles	571,130	685,333	368,388	463,315	939,518	1,148,648	(18.2)
Infrastructure	16,073,867	14,891,683	-	-	16,073,867	14,891,683	7.9
Total Capital Assets	<u>\$ 38,032,052</u>	<u>\$ 34,480,519</u>	<u>\$ 98,579,603</u>	<u>\$ 95,331,267</u>	<u>\$ 136,611,655</u>	<u>\$ 129,811,786</u>	

Major capital asset events during the current fiscal year included the following:

- Purchase of land and buildings on Sinagua Drive.
- Various drainage project improvements.
- Various road improvement projects.
- Ongoing construction in progress for wastewater treatment plant upgrades and effluent management injection wells.
- Ongoing construction in progress for the bike skills park, Barbara's park amphitheater and Cathedral Rock trailhead.

Additional information on the City's capital assets can be found in Note 3.A.4. on pages 49 - 50 of this report.

Long-term debt. At the end of fiscal year 2016, City of Sedona, Arizona had total bonded debt outstanding of \$38.6 million (net of related premium). At the end of fiscal year 2015 the City had bonded debt totaling \$43.3 million. All of the fiscal year 2016 total bonded debt was related to revenue bonds. An additional \$9.5 million of debt is outstanding that is related to Capital Appreciation Bonds issued in fiscal year 1998 that will be paid starting in fiscal years 2020 through 2024.

State statutes impose certain debt limitations on the City of 6 percent and 20 percent of the outstanding secondary assessed valuation of the City. The City's available debt margin at June 30, 2016, is \$19.0 million in the 6 percent capacity and \$63.3 million in the 20 percent capacity. In fiscal year 2015, the 6 percent capacity limit was \$18.3 million and the 20 percent capacity limit was \$61.0 million. Additional

**CITY OF SEDONA, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

information on the debt limitations and capacities may be found on page 103 in the statistical section of this report. See Note 3.C. on pages 52 - 54 to the financial statements for further information regarding long-term debt.

**City of Sedona, Arizona
Outstanding Obligations
June 30, 2016 and 2015**

	Governmental Activities		Business-Type Activities		Total		Change
	2016	2015	2016	2015	2016	2015	
Revenue Obligation Bonds	\$ 10,509,700	\$ 10,329,700	\$ 27,185,300	\$ 31,930,300	\$ 37,695,000	\$ 42,260,000	(10.8)%
Premium on Long-term Debt	-	9,362	886,886	999,025	886,886	1,008,387	(12.0)%
Capital Appreciation Bond Interest	-	-	9,537,228	8,740,542	9,537,228	8,740,542	9.1 %
Total Outstanding Debt	<u>\$ 10,509,700</u>	<u>\$ 10,339,062</u>	<u>\$ 37,609,414</u>	<u>\$ 41,669,867</u>	<u>\$ 48,119,114</u>	<u>\$ 52,008,929</u>	

Economic Factors and Next Year's Budgets and Rates

The City of Sedona, Arizona as well as other Arizona cities, remain 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 2016-17 budgeted General Fund expenditures (including inter-fund transfers) are balanced with anticipated revenue. The total adopted fiscal year 2016-17 budget is \$38.4 million, which includes capital projects of \$8.9 million. The budget for fiscal year 2016-17 also includes:

- Carryover of the update to the land development code to be current with the new development standards and other best practices.
- A transfer of streets related expenditures to the General Fund of approximately \$818,000. The Streets Fund will be limited to rehabilitation and pavement preservation and the program will be increased to cover an estimated 4.5 to 5 miles per year.
- With the economic turnaround and the efforts of the City's contracted destination marketing program, bed tax revenues have increased significantly over projections. In fiscal year 2013-14, the City entered into a contract with the Chamber of Commerce for a destination marketing program at a cost of 55% of the City's bed tax revenues. Due to the increases in revenues, the 55% owed to the Chamber has exceeded the amounts budgeted. In case bed taxes again exceed estimates, a contingency placeholder has been included in both revenues and expenditures of \$550,000.
- A reduction of the subsidy for the Wastewater Fund from 30% of city sales tax revenues to 25%.
- A 4% increase in wastewater rates.

Requests for Information

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.

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BASIC FINANCIAL STATEMENTS

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CITY OF SEDONA, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 25,852,709	\$ 19,793,843	\$ 45,646,552
Receivables, Net			
Accounts Receivable	534,933	658,640	1,193,573
Tax Receivable (Net)	2,798,846	-	2,798,846
Intergovernmental Receivable	359,507	-	359,507
Prepaid Items	101,203	-	101,203
Restricted Assets	1,400	341,406	342,806
Capital Assets:			
Non-Depreciable	12,046,988	20,146,583	32,193,571
Depreciable (Net)	25,985,064	78,433,020	104,418,084
Total Assets	<u>67,680,650</u>	<u>119,373,492</u>	<u>187,054,142</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charges on Refunding	615,219	216,642	831,861
Deferred Outflows Related to Pensions	2,188,797	124,510	2,313,307
Total Deferred Outflows of Resources	<u>2,804,016</u>	<u>341,152</u>	<u>3,145,168</u>
LIABILITIES			
Accounts Payable	1,923,006	975,794	2,898,800
Accrued Salaries and Wages	132,100	20,621	152,721
Accrued Interest Payable	119,112	324,348	443,460
Deposits	1,400	39,035	40,435
Intergovernmental Payable	362	-	362
Retainage Payable	74,968	6,450	81,418
Unearned Revenue	50,396	782,367	832,763
Deposits Held for Others	-	302,371	302,371
Matured Debt Principal Payable	515,000	4,745,000	5,260,000
Noncurrent Liabilities			
Net Pension Liability	10,730,281	937,607	11,667,888
Due Within One Year	763,053	4,610,239	5,373,292
Due in More Than One Year	10,162,053	33,078,767	43,240,820
Total Liabilities	<u>24,471,731</u>	<u>45,822,599</u>	<u>70,294,330</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows Related to Pensions	1,225,257	79,180	1,304,437
Total Deferred Inflows of Resources	<u>1,225,257</u>	<u>79,180</u>	<u>1,304,437</u>
NET POSITION			
Net Investment in Capital Assets	27,547,603	65,972,609	93,520,212
Restricted for:			
Streets	953,411	-	953,411
Court Improvements	38,442	-	38,442
Criminal Case Processing	39,413	-	39,413
Police Department Programs	112,205	-	112,205
Parks Capital Improvements	1,791,686	-	1,791,686
Flood Control	2,367,583	-	2,367,583
Police Capital Improvements	1,194	-	1,194
Summit CFD Capital Improvements	313,379	-	313,379
Fairfield CFD Capital Improvements	782,614	-	782,614
Unrestricted	10,840,148	7,840,256	18,680,404
Total Net Position	<u>\$ 44,787,678</u>	<u>\$ 73,812,865</u>	<u>\$ 118,600,543</u>

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 6,564,561	674,762	\$ 23,437	\$ 812	\$ (5,865,550)	\$ -	\$ (5,865,550)
Public Safety	4,353,279	31,570	90,792	23,898	(4,207,019)	-	(4,207,019)
Public Works and Streets	3,025,476	4,745	917,406	1,032,130	(1,071,195)	-	(1,071,195)
Culture and Recreation	1,810,593	104,217	24,600	120,481	(1,561,295)	-	(1,561,295)
Economic Development	1,336,234	-	-	-	(1,336,234)	-	(1,336,234)
Interest on Long-term Debt	319,545	-	-	-	(319,545)	-	(319,545)
Total Governmental Activities	17,409,688	815,294	1,056,235	1,177,321	(14,360,838)	-	(14,360,838)
Business-Type Activities:							
Wastewater	7,137,688	6,349,506	-	-	-	(788,182)	(788,182)
Total Primary Government	<u>\$ 24,547,376</u>	<u>\$ 7,164,800</u>	<u>\$ 1,056,235</u>	<u>\$ 1,177,321</u>	<u>(14,360,838)</u>	<u>(788,182)</u>	<u>(15,149,020)</u>
General Revenues:							
Taxes							
Sales Taxes					18,004,940	-	18,004,940
Franchise Taxes					789,754	-	789,754
In Lieu Taxes					622,224	-	622,224
Unrestricted State Revenue Sharing					1,207,731	-	1,207,731
Unrestricted State Sales Tax Revenue Sharing					948,696	-	948,696
Unrestricted Auto Lieu Tax Revenue Sharing					577,681	-	577,681
Investment Earnings					307,030	179,734	486,764
Gain on Sale of Capital Assets					11,806	-	11,806
Other					78,629	-	78,629
Transfers					(4,497,550)	4,497,550	-
Total General Revenues					<u>18,050,941</u>	<u>4,677,284</u>	<u>22,728,225</u>
Change in Net Position					<u>3,690,103</u>	<u>3,889,102</u>	<u>7,579,205</u>
Net Position - Beginning, As Restated					<u>41,097,575</u>	<u>69,923,763</u>	<u>111,021,338</u>
Net Position - Ending					<u>\$ 44,787,678</u>	<u>\$ 73,812,865</u>	<u>\$ 118,600,543</u>

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Streets Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Totals
Assets					
Cash and Investments	\$ 8,245,870	\$ 1,162,598	\$ 12,106,798	\$ 4,337,443	\$ 25,852,709
Receivables					
Accounts Receivable	338,244	-	196,689	-	534,933
Taxes Receivable	2,767,848	-	-	30,998	2,798,846
Intergovernmental Receivable	102,862	81,922	155,433	19,290	359,507
Prepaid Items	86,203	-	-	15,000	101,203
Restricted Assets	1,400	-	-	-	1,400
Total Assets	\$ 11,542,427	\$ 1,244,520	\$ 12,458,920	\$ 4,402,731	\$ 29,648,598
Liabilities, Deferred Inflows of Resources and Fund Balance					
Liabilities					
Accounts Payable	\$ 613,793	\$ 584,575	\$ 451,629	\$ 273,009	\$ 1,923,006
Accrued Wages and Benefits	132,100	-	-	-	132,100
Interest Payable	119,112	-	-	-	119,112
Intergovernmental Payable	362	-	-	-	362
Retainage Payable	-	-	33,160	41,808	74,968
Unearned Revenue	23,396	-	-	27,000	50,396
Customer Deposits Payable	1,400	-	-	-	1,400
Matured Debt Principal Payable	515,000	-	-	-	515,000
Total Liabilities	1,405,163	584,575	484,789	341,817	2,816,344
Deferred Inflows of Resources	387,031	-	146,887	29,770	563,688
Fund Balances					
Nonspendable	86,203	-	-	15,000	101,203
Restricted	77,855	153,445	2,199,734	3,968,059	6,399,093
Committed	389,240	-	9,627,510	65,406	10,082,156
Assigned	1,585,000	506,500	-	19,363	2,110,863
Unassigned	7,611,935	-	-	(36,684)	7,575,251
Total Fund Balance	9,750,233	659,945	11,827,244	4,031,144	26,268,566
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 11,542,427	\$ 1,244,520	\$ 12,458,920	\$ 4,402,731	\$ 29,648,598

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Fund Balances for Governmental Funds	\$ 26,268,566
Amounts reported for governmental activities in the statement of activities are different because:	
Sales tax audit revenues, CFD fee-in-lieu taxes, Court receivables, net of allowance for doubtful accounts, franchise fees and intergovernmental revenues are deferred in the governmental fund financial statements but recognized when earned in the statement of activities when they are available to finance current resources.	563,688
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Governmental Capital Assets	62,322,019
Less Accumulated Depreciation	(24,289,967)
Capital Assets Used in Governmental Activities	38,032,052
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred Outflows of Resources Related to Pensions	2,188,797
Deferred Inflows of Resources Related to Pensions	(1,225,257)
Long term liabilities, including bonds payable, deferred amounts on refunding, and the net pension liability are not due and payable in the current period and therefore are not reported in the governmental funds.	
Revenue Bonds	(10,509,700)
Deferred Amount on Refunding	615,219
Compensated Absences	(415,406)
Net Pension Liability	(10,730,281)
Total Net Assets of Governmental Activities	\$ 44,787,678

See accompanying Notes to the Basic Financial Statements.

CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Streets Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Totals
Revenue					
Taxes					
Sales Taxes	\$ 18,009,946	\$ -	\$ -	\$ -	\$ 18,009,946
Franchise Taxes	781,223	-	-	-	781,223
In Lieu Taxes	450,881	-	-	170,509	621,390
Intergovernmental Revenue	2,810,107	897,406	740,993	57,090	4,505,596
Fines and Forfeitures	147,984	-	-	-	147,984
Licenses and Permits	496,517	-	-	-	496,517
Charges for Services	160,587	-	-	1,543	162,130
Contributions and Donations	700	-	204,556	25,040	230,296
Impact Fees	-	-	-	231,772	231,772
Investment Earnings	186,011	5,586	58,186	57,247	307,030
Other	78,629	-	-	-	78,629
Total Revenue	23,122,585	902,992	1,003,735	543,201	25,572,513
Expenditures					
Current					
General Government	6,158,091	-	-	21,290	6,179,381
Public Safety	4,121,457	-	-	76,878	4,198,335
Public Works and Streets	809,162	1,015,654	-	-	1,824,816
Culture and Recreation	1,741,760	-	-	28,232	1,769,992
Economic Development	1,336,234	-	-	-	1,336,234
Debt Service					
Principal Retirement	496,370	-	-	18,630	515,000
Interest on Long-Term Debt	153,295	-	-	547	153,842
Issuance Costs and Fiscal Charges	91,825	-	-	-	91,825
Capital Outlay	-	110,572	4,045,970	1,081,393	5,237,935
Total Expenditures	14,908,194	1,126,226	4,045,970	1,226,970	21,307,360
Excess (Deficiency) of Revenue Over Expenditures	8,214,391	(223,234)	(3,042,235)	(683,769)	4,265,153
Other Financing Sources (Uses)					
Transfers In	-	506,500	6,884,446	40,314	7,431,260
Transfers Out	(11,898,273)	-	(30,537)	-	(11,928,810)
Issuance of Refunding Bonds	8,030,000	-	-	-	8,030,000
Payment to Refunded Bond Escrow Agent	(7,934,739)	-	-	-	(7,934,739)
Sale of Capital Assets	11,806	-	-	-	11,806
Total Other Financing Sources (Uses)	(11,791,206)	506,500	6,853,909	40,314	(4,390,483)
Net Change in Fund Balance	(3,576,815)	283,266	3,811,674	(643,455)	(125,330)
Fund Balance					
Beginning of Year, as Restated	13,327,048	376,679	8,015,570	4,674,599	26,393,896
End of Year	<u>\$ 9,750,233</u>	<u>\$ 659,945</u>	<u>\$ 11,827,244</u>	<u>\$ 4,031,144</u>	<u>\$ 26,268,566</u>

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances-Total Governmental Funds \$ (125,330)

Amounts reported for governmental activities in the statement of activities are

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for Capital Assets	5,408,259	
Less Current Year Depreciation	<u>(1,856,726)</u>	
Excess Capital Expenditures Over Depreciation		3,551,533

Other revenues and property taxes receivable will be collected subsequent to year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred inflows of resources in the governmental funds.

Unavailable Revenue - June 30, 2015, as Restated	(550,666)	
Unavailable Revenue - June 30, 2016	<u>563,688</u>	13,022

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Principal Payments on Long-Term Debt		515,000
Issuance of Long-Term Debt		(8,030,000)
Payment to Refunded Bond Escrow Agent		7,934,739
Amortization on Deferred Amount on Refunding		(73,878)

Governmental funds report City pension contributions as expenditures when made. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows or resources related to pensions, and the investment experience.

Pension Contributions	938,304	
Pension Expense	<u>(1,008,311)</u>	(70,007)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in Compensated Absences		(24,976)
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Change in Net Position of Governmental Activities		<u>\$ 3,690,103</u>
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See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2016**

	Original	Final	Actual	Variance with Final Budget
Revenue				
Taxes				
Sales Taxes	\$ 12,147,000	\$ 12,147,000	\$ 13,512,396	\$ 1,365,396
Franchise Taxes	772,000	772,000	781,223	9,223
In Lieu Taxes	400,000	400,000	450,881	50,881
Intergovernmental Revenue	2,760,231	2,760,231	2,810,107	49,876
Fines and Forfeitures	144,000	144,000	147,984	3,984
Licenses and Permits	343,200	343,200	496,517	153,317
Charges for Services	95,550	95,550	160,587	65,037
Contributions and Donations	-	-	700	700
Investment Earnings	122,500	122,500	186,011	63,511
Other	185,350	185,350	78,629	(106,721)
Total Revenue	<u>16,969,831</u>	<u>16,969,831</u>	<u>18,625,035</u>	<u>1,655,204</u>
Expenditures				
City Council	77,543	77,543	63,123	14,420
City Manager	854,638	854,638	745,234	109,404
Human Resources	209,213	218,049	217,866	183
Financial Services	460,954	460,954	450,226	10,728
Information Technology	959,037	974,467	853,747	120,720
City Attorney	504,523	504,523	496,563	7,960
City Clerk	218,770	227,608	219,941	7,667
Parks and Recreation	484,324	484,324	465,073	19,251
General Services	4,230,206	4,199,968	4,071,782	128,186
Community Development	1,469,385	1,459,955	1,180,037	279,918
Public Works	2,345,922	2,345,922	2,087,780	258,142
Police	3,946,488	3,936,711	3,749,540	187,171
Municipal Court	305,509	312,073	307,282	4,791
Total Expenditures	<u>16,066,512</u>	<u>16,056,735</u>	<u>14,908,194</u>	<u>1,148,541</u>
Excess of Revenue Over Expenditures	903,319	913,096	3,716,841	2,803,745
Other Financing Sources (Uses)				
Transfers In	286,000	286,000	-	(286,000)
Transfers Out	(506,500)	(516,277)	(7,400,723)	(6,884,446)
Issuance of Refunding Bonds	9,300,000	9,300,000	8,030,000	(1,270,000)
Payment to Refunded Bond Escrow Agent	(9,300,000)	(9,300,000)	(7,934,739)	1,365,261
Sale of Capital Assets	15,000	15,000	11,806	(3,194)
Total Other Financing Sources (Uses)	<u>(205,500)</u>	<u>(215,277)</u>	<u>(7,293,656)</u>	<u>(7,078,379)</u>
Net Change in Fund Balance	697,819	697,819	(3,576,815)	(4,274,634)
Fund Balance				
Beginning of Year, as Restated	13,071,000	13,071,000	13,327,048	256,048
End of Year	<u>\$ 13,768,819</u>	<u>\$ 13,768,819</u>	<u>\$ 9,750,233</u>	<u>\$ (4,018,586)</u>

Sales tax revenues excludes \$4,497,550 which was reported as a transfer out in the Statement of Revenues, Expenditures and Changes in Fund Balance.

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STREETS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental Revenue	\$ 782,238	\$ 897,406	\$ 115,168
Investment Earnings	-	5,586	5,586
Total Revenue	782,238	902,992	120,754
Expenditures			
Current			
Public Works and Streets	1,287,489	1,015,654	271,835
Capital Outlay	117,200	110,572	6,628
Total Expenditures	1,404,689	1,126,226	278,463
Excess (Deficiency) of Revenue Over Expenditures	(622,451)	(223,234)	399,217
Other Financing Sources (Uses)			
Transfers In	506,500	506,500	-
Net Change in Fund Balance	(115,951)	283,266	399,217
Fund Balance			
Beginning of Year, as Restated	115,000	376,679	261,679
End of Year	\$ (951)	\$ 659,945	\$ 660,896

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Business-Type Activities
	Wastewater
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 19,793,843
Receivables, Net	
Accounts Receivable	658,640
Restricted Assets	341,406
Total Current Assets	20,793,889
Noncurrent Assets	
Capital Assets	
Non-Depreciable	20,146,583
Depreciable (Net)	78,433,020
Total Noncurrent Assets	98,579,603
Total Assets	119,373,492
Deferred Outflows of Resources	
Deferred Charges on Refunding	216,642
Deferred Outflows Related to Pensions	124,510
Total Deferred Outflows of Resources	341,152
Liabilities	
Current Liabilities	
Accounts Payable	975,794
Accrued Wages and Benefits	20,621
Interest Payable	324,348
Retainage Payable	6,450
Unearned Revenue	782,367
Deposits Held for Others	302,371
Matured Debt Principal Payable	4,745,000
Customer Deposits Payable	39,035
Compensated Absences	44,939
Bonds Payable	4,565,300
Total Current Liabilities	11,806,225
Noncurrent Liabilities	
Compensated Absences	34,653
Net Pension Liability	937,607
Capital Appreciation Bond Interest	9,537,228
Bonds Payable	23,506,886
Total Noncurrent Liabilities	34,016,374
Total Liabilities	45,822,599
Deferred Inflows of Resources	79,180
Net Position	
Net Investment in Capital Assets	65,972,609
Unrestricted	7,840,256
Total Net Position	\$ 73,812,865

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	Business-Type Activities
	Wastewater
Operating Revenue	
Charges for Services	\$ 5,690,470
Other	117,991
Total Operating Revenue	5,808,461
Operating Expenses	
Salaries, Wages and Benefits	1,581,855
Supplies and Other	1,855,232
Depreciation	2,593,175
Total Operating Expenses	6,030,262
Operating Loss	(221,801)
Nonoperating Revenue (Expense)	
Capacity Fees	541,045
Interest Expense	(1,107,426)
Investment Earnings	179,734
Total Nonoperating Revenue (Expenses)	(386,647)
Income (Loss) Before Capital Contributions and Transfers	(608,448)
Transfers In	4,497,550
Change in Net Position	3,889,102
Net Position	
Beginning of Year, as Restated	69,923,763
End of Year	\$ 73,812,865

See accompanying Notes to the Basic Financial Statements.

**CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>Business-Type Activities - Enterprise Funds Wastewater</u>
Cash Flows from Operating Activities	
Receipts from Customers	\$ 5,644,835
Payments to Suppliers	(2,246,181)
Payments to Employees	(1,536,972)
Other Receipts	117,991
Customer Deposits	5,775
Net Cash Flows from Operating Activities	<u>1,985,448</u>
Cash Flows from Noncapital Financing Activities	
Transfers In	<u>4,594,933</u>
Cash Flows from Capital and Related Financing Activities	
Capacity Fees	541,045
Purchases of Capital Assets	(5,553,954)
Securities In-Lieu of Retainage	152,498
Interest Paid on Capital Debt	(342,898)
Net Cash Flows used by Capital and Financing Activities	<u>(5,203,309)</u>
Cash Flows from Investing Activities	
Interest and Dividends	<u>179,734</u>
Net Change in Cash and Cash Equivalents	1,556,806
Cash and Cash Equivalents, Beginning of Year, As Restated (includes a restatement of \$139,898 for prior year corrections)	<u>18,578,443</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,135,249</u></u>

**CITY OF SEDONA, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016**

	<u>Business-Type Activities - Enterprise Funds Wastewater</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (221,801)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities	
Depreciation	2,593,175
Change in Assets/Liabilities:	
Receivables, Net	(39,335)
Accounts Payable	(390,949)
Accrued Wages and Benefits	20,621
Compensated Absences	6,485
Net Pension Liability	17,777
Customer Deposits Payable	5,775
Unearned Revenue	(6,300)
Net Cash from Operating Activities	<u>\$ 1,985,448</u>
Noncash Investing, Capital and Financing Activities	
Amortization of Premiums	\$ (112,139)
Amortization of Deferred Amounts on Refunding	54,750
Amortization of Capital Appreciation Bond Interest	796,686

See accompanying Notes to the Basic Financial Statements.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of City of Sedona, Arizona have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statements No. 73 and 82 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

A. 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 City has blended the following entities into its Comprehensive Annual Financial Report:

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.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

B. Government-Wide and Fund 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. The effect of interfund activity has been removed from these statements except for interfund services provided and used are not eliminated in the consolidation. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 City 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, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the General Fund and the Development Impact Fees Fund, a nonmajor fund.

Taxes, intergovernmental grants and aid, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government. 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).

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those accounted for in another fund.

The *Streets Fund* accounts for the City's streets maintenance costs. Funding is provided by the City's portion of state shared gasoline taxes and support from the General Fund.

The *Capital Improvement Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major proprietary funds:

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

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

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

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 enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use for governmental activities, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three years or less from the date of acquisition.

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.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

2. Receivables

All trade receivables are shown net of an allowance for uncollectible.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. The City recognizes the expense/expenditure in the government-wide and fund financial statements at the time the benefit is received and not at the time of the outlay.

4. Restricted Cash and Investments

The City reports restricted cash and investments in the General Fund and Wastewater Fund for customer deposits and a retainage payable balance that is held in the City's name in a trust for the contractor when construction is completed to the City's satisfaction.

5. Capital Assets

Capital assets (including property, plant, and equipment) are reported in the governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, 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.

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Depreciation is provided on a straight-line basis over the following estimated useful lives:

Buildings	30 Years
Improvements Other than Buildings	6 to 50 Years
Streets, Sidewalks and Other Infrastructure	20 to 50 Years
Wastewater Plant	6 to 50 Years
Wastewater Lines	50 Years
Machinery, Equipment and Vehicles	3 to 6 Years

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

6. Deferred Outflows of Resources

The City recognizes the consumption of net position that is applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions and deferred charges on refundings. 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.

7. 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 governmental 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.

8. Long-Term Obligations

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary type statement of net position. Bond premiums are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the bond premium. Bond issuance costs and fiscal charges are expensed.

In the fund financial statements, governmental fund types recognize bond premiums, as well as bond issuance costs and fiscal charges, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs and fiscal charges, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Pension Plans

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 fiduciary net position of the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS) and additions to/deductions from ASRS/PSPRS's fiduciary net position have been determined on the same basis as they are reported by ASRS/PSPRS.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

9. Pension Plans (Continued)

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.

10. Deferred Inflows of Resources

The deferred inflows of resources reported in the governmental fund financial statements represent resources that are not available to the City as of June 30, 2016 or within 60 days of fiscal year end. The deferred inflows of resources represent a reconciling item between the governmental fund financial statements and the government-wide financial statements.

The City also recognizes the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions

11. Net Position

In the government-wide financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. The net investment in capital assets is separately reported because these assets are not available for future spending. Restricted net position accounts for the portion of net position restricted by parties outside the City. Unrestricted net position is the remaining net position not included in the previous two categories.

12. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification include amounts that cannot be spent because they are either not in spendable form such as inventories, advances to other funds, other long-term notes receivable, and prepaid items, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity (Continued)

12. Fund Balance Classifications (Continued)

Committed fund balances are self-imposed limitations approved by the City Council through ordinance, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances through formal resolution. Fund balances must be committed before the end of the fiscal year.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has authorized the City Manager or his designee to make assignments of resources for specific purposes.

The unassigned fund balance is the residual classification for the General Fund and includes all amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned. It is the City's policy to use restricted fund balance first, then committed, assigned, and lastly unassigned amounts. The City has also established a fund balance policy as noted below:

General Fund Balance: The unassigned fund balance range for the General Fund shall be not less than 50% and not more than 75% of the total adopted budgeted operating expenditures of the General Fund budget. Additionally, the General Fund Capital Accumulation Fund: The assigned fund balance range for the GF Capital Accumulation Fund shall be any current accumulation plus fund balance requirements for immediate replacements. This restricted fund balance range is an accumulation of the City's 3% sales tax after all current bonded debt service is satisfied. The fund balance requirement for this fund should not fall below \$100,000 with no upper limit.

Streets Fund: The restricted fund balance range for the Streets Fund shall be not less than 10% and not more than 50% of the total budgeted revenues of the Streets Fund.

Wastewater Fund: The net position range for the Wastewater Fund, including maintenance, operations and administration shall be not less than 25% (90 days) and not more than 33.3% (120 days) of the total budgeted operating expenses of the Fund. This shall be in addition to a separate net position with a target equal to the average of one year of enterprise fund debt service repayment requirements.

Capital Improvements Fund: The Capital Improvement Fund, coupled with estimated revenues for the ensuing fiscal year, must be sufficient to fund all outstanding capital fund obligations for the next fiscal year. This will follow the City's 5-Year Capital Plan.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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. Expenditures may not legally exceed the expenditure limitation described above 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, which is the legal level of budgetary control for these funds. The City Manager may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity.
5. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures, with the exception of the sales tax transfer for the Wastewater Fund subsidy.

The City is subject to the State of Arizona's Spending Limitation Law for Cities and Towns. This law does not permit the City to spend more than budgeted revenues plus the carryover 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.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer’s local government investment pools, the County Treasurer’s investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City’s investments.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the City’s deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City’s deposits was \$4,478,099 and the bank balance was \$4,433,939. At year end, \$750,000 of the City’s deposits was covered by federal depository insurance and \$3,596,921 was collateralized by the Arizona State Treasurer’s pooled collateral program. The remaining bank balance not covered by federal depository insurance of \$87,018 was unpledged and uncollateralized.

Deposits and investments at June 30, 2016 consist of the following:

Deposits	
Cash on Hand	\$ 6,990
Cash in Bank	4,478,099
Investments	
State Treasurer's Investment Pool	27,770,122
Money Market Funds	5,703,460
U.S. Government Securities	8,030,687
Total Deposits and Investments	<u>45,989,358</u>
Restricted Assets	<u>(342,806)</u>
Total Deposits and Investments	<u>\$ 45,646,552</u>

Investments - The State Investment Board provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. All other investments of the City are uninsured and unregistered with the securities held by the counterparty’s trust department or agent in the City’s name.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. In accordance with the City’s investment policy, the City manages its exposure to declines in fair values by limiting its investments to U.S. government securities with maturities of less than three years. The table on the following page summarizes the City’s interest rate risk, based on maturity dates of various instruments:

Investment	Investment Maturities (in Years)			
	Amount	Less than 1	1-3	4-5
U.S. Agency Securities	\$ 2,000,684	\$ 994,222	\$ 1,006,462	\$ -
U.S. Treasury Notes	6,030,003	3,008,988	3,021,015	-
Money Market Funds	5,703,460	5,703,460	-	-
State Treasurer's Investment Pool	27,770,122	27,770,122	-	-
Total Investments	<u>\$ 41,504,269</u>	<u>\$ 37,476,792</u>	<u>\$ 4,027,477</u>	<u>\$ -</u>

Credit Risk – The City limits its investments to the State Treasurer’s Investment Pool, U.S. Agency Securities and U.S. Treasury Notes. The investment in the money market is on hand at the end of the fiscal year in order to make the required principal and interest payments on outstanding bonds. The funds are on deposit with a trustee for less than one month and do not pose a credit risk to the City. The City’s investments consist of only the State Treasurer’s Investment Pool, US Treasury Bonds and Federal Agency Securities. The City’s investment rating based on investment type is shown below:

Investment Type	Rating	Agency	Amount
U.S. Agency Securities	AA+	Moody's	\$ 2,000,684
U.S. Treasury Notes	AA+	Moody's	6,030,003
Money Market Funds	N/R	N/R	5,703,460
State Treasurer's Investment Pool	AAA	Moody's	27,770,122
			<u>\$ 41,504,269</u>

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Concentration of Credit Risk - The City places no limit on the amount the City may invest in any one investment type. See table summarizing the City's investment percentages:

Investment Type	Amount	Percent of City Investments
U.S. Agency Securities	\$ 2,000,684	4.82%
U.S. Treasury Notes	6,030,003	14.53%
Money Market Funds	5,703,460	13.74%
State Treasurer's Investment Pool	27,770,122	66.91%
	<u>\$ 41,504,269</u>	<u>100.00%</u>

Fair Value Measurements. The City uses fair value measurements to record fair value adjustments to certain assets and liabilities to determine fair value disclosures.

The City follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the City has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level III). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statement of net position are categorized based on the inputs to the valuation techniques as follows:

Level I – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

Level II – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Level III – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

At year end, the City’s investments were measured as follows:

	<u>6/30/2016</u>	<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level I)</u>	<u>Significant Other Observable Inputs (Level II)</u>	<u>Significant Observable Inputs (Level III)</u>
Investments by Fair Value Level				
Debt Securities				
U.S. Agency Securities	\$ 2,000,684	\$ -	\$ 2,000,684	\$ -
U.S. Treasury Notes	6,030,003	-	6,030,003	-
Total Investments by fair value level	<u>8,030,687</u>	<u>\$ -</u>	<u>\$ 8,030,687</u>	<u>\$ -</u>
Investments Measured at Fair Value				
State Treasurer's Investment Pool	<u>27,770,122</u>			
Total investments measured at fair value	<u>35,800,809</u>			
Investments Measured at Amortized Cost				
Money Market Funds	<u>5,703,460</u>			
Total Investments:	<u>\$ 41,504,269</u>			

2. Restricted Cash and Investments

Restricted cash and investments at June 30, 2016 consist of the following:

Customer Deposits	\$ 40,435
Deposits Held for Others	<u>302,371</u>
	<u>\$ 342,806</u>

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General Fund:		
Court Fines Receivable	\$ 231,823	\$ -
Franchise Fee Receivable	8,531	-
Sales Tax Receivable	140,319	-
Miscellaneous Receivable	6,358	-
Miscellaneous Unearned Fees	-	23,396
Capital Improvement Fund:		
Intergovernmental Receivable	146,887	-
Nonmajor Governmental Funds:		
Grant Advances Prior to Meeting all Eligibility Requirements	-	27,000
In-lieu Tax Receivable	29,770	-
	\$ 563,688	\$ 50,396

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**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital assets activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 8,268,414	\$ 522,432	\$ -	\$ 8,790,846
Construction in Progress	1,354,986	4,211,187	(2,310,031)	3,256,142
Total Capital Assets, Not Being Depreciated	9,623,400	4,733,619	(2,310,031)	12,046,988
Capital Assets, Being Depreciated:				
Land Improvements	6,530,828	87,980	-	6,618,808
Building and Improvements	7,800,059	432,255	-	8,232,314
Machinery, Equipment and Vehicles	5,897,008	282,963	(46,741)	6,133,230
Infrastructure	27,109,206	2,181,473	-	29,290,679
Total Capital Assets, Being Depreciated	47,337,101	2,984,671	(46,741)	50,275,031
Accumulated Depreciation for:				
Land Improvements	(1,993,713)	(169,843)	-	(2,163,556)
Building and Improvements	(3,057,071)	(290,428)	-	(3,347,499)
Machinery, Equipment and Vehicles	(5,211,675)	(397,166)	46,741	(5,562,100)
Infrastructure	(12,217,523)	(999,289)	-	(13,216,812)
Total Accumulated Depreciation	(22,479,982)	(1,856,726)	46,741	(24,289,967)
Total Capital Assets, Being Depreciated, Net	24,857,119	1,127,945	-	25,985,064
Governmental Activities Capital Assets, Net	<u>\$ 34,480,519</u>	<u>\$ 5,861,564</u>	<u>\$ (2,310,031)</u>	<u>\$ 38,032,052</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	(Restated) Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 11,159,413	\$ -	\$ -	\$ 11,159,413
Construction in Progress	3,687,832	5,533,460	(234,122)	8,987,170
Total Capital Assets, Not Being Depreciated	<u>14,847,245</u>	<u>5,533,460</u>	<u>(234,122)</u>	<u>20,146,583</u>
Capital Assets, Being Depreciated:				
Wastewater System	113,255,375	522,686	-	113,778,061
Machinery, Equipment and Vehicles	5,135,967	19,487	-	5,155,454
Total Capital Assets, Being Depreciated	<u>118,391,342</u>	<u>542,173</u>	<u>-</u>	<u>118,933,515</u>
Accumulated Depreciation for:				
Wastewater System	(33,234,668)	(2,478,761)	-	(35,713,429)
Machinery, Equipment and Vehicles	(4,672,652)	(114,414)	-	(4,787,066)
Total Accumulated Depreciation	<u>(37,907,320)</u>	<u>(2,593,175)</u>	<u>-</u>	<u>(40,500,495)</u>
Total Capital Assets, Being Depreciated, Net	<u>80,484,022</u>	<u>(2,051,002)</u>	<u>-</u>	<u>78,433,020</u>
Business-Type Activities Capital Assets, Net	<u>\$ 95,331,267</u>	<u>\$ 3,482,458</u>	<u>\$ (234,122)</u>	<u>\$ 98,579,603</u>

The beginning balance of Construction in Progress was restated by \$296,595 due to previously unrecorded capitalized interest of \$146,722 and due to \$149,873 previously recorded as a prepaid asset. In addition, the beginning balance of the Wastewater System was restated by \$10,299 due to prior year capitalized interest. See Note 3.E. for further explanation.

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General Government	\$ 349,265
Public Safety	191,041
Public Works and Streets	1,223,732
Culture and Recreation	92,688
Total Depreciation Expense	<u>1,856,726</u>

Business-Type Activities:

Wastewater	<u>\$ 2,593,175</u>
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During the current fiscal year, the Wastewater Fund capitalized net interest costs of \$299,117. Total interest expense in the Wastewater Fund before capitalization was \$1,393,622.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

5. Construction Commitments

The City has active construction projects at June 30, 2016. The projects include various park projects, drainage improvements, street and sidewalk improvements, wastewater system upgrades, and addition of injection wells to the wastewater effluent management system. At fiscal year end the City's commitments with contractors were as follows:

Governmental Activities		
Project	Spent-to-date	Remaining Commitment
Barbara Antonsen's Park	\$ 566,747	\$ 882,947
Uptown Pedestrian Access Improvements	373,491	869,059
Total Governmental Activities	<u>\$ 940,238</u>	<u>\$ 1,752,006</u>

Business-type Activities		
Project	Spent-to-date	Remaining Commitment
WWTP A+ Upgrades	\$ 5,113,538	\$ 2,703
WWTP Effluent Mgt Injection	3,277,919	1,459,537
Total business-type activities	<u>\$ 8,391,457</u>	<u>\$ 1,462,240</u>

B. Transfers

Interfund transfers for the year ended June 30, 2016 consisted of the following:

Transfers to	Transfers From		Total
	General Fund	Capital Improvement Fund	
Streets Fund	\$ 506,500	\$ -	\$ 506,500
Capital Improvement Fund	6,884,446	-	6,884,446
Nonmajor Governmental Funds	9,777	30,537	40,314
Wastewater Fund	4,497,550	-	4,497,550
	<u>\$ 11,898,273</u>	<u>\$ 30,537</u>	<u>\$ 11,928,810</u>

The transfer of \$506,500 from the General Fund to the Streets Fund was to support highway and street activity. The transfer of \$6,884,446 from the General Fund to the Capital Improvement Fund was made based on the City's fund balance policy to move excess capacity for capital projects. The transfer of \$9,777 from the General Fund to the Nonmajor Governmental Funds was for the City's matching portion of a police grant.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Transfers (Continued)

The transfer of \$30,537 from the Capital Improvement Fund to the Nonmajor Governmental Funds was made to move 1% of construction costs to the Art in Public Places Fund, based on City policy. Lastly, the transfer of \$4,497,550 from the General Fund to the Wastewater Fund is for sales tax collected and transferred to the Wastewater Fund to support operations.

C. Long-Term Obligations

The following is a list of revenue obligation bonds outstanding as of June 30, 2016.

Description	Interest Rate	Maturity Date	Amount
Governmental Activities:			
Revenue Bonds:			
Excise Tax Revenue Refunding Bonds Series 2007, Original Issue \$8.795 million	4.0-4.125%	7/1/18-19	\$ 1,460,000
Excise Tax Revenue Refunding Bonds Series 2014, Original Issue \$1.8797 million	.66%	7/1/16-19	1,189,700
Excise Tax Revenue Refunding Bonds, Second Series 2015, Original Issue \$8.030 million	1.94%	7/1/16-27	7,860,000
Total Revenue Bonds:			<u>\$ 10,509,700</u>
Business-type Activities:			
Revenue Bonds:			
Excise Tax Revenue Bonds, Series 1998 Original Issue \$41.035 million	5.2-5.24%	7/1/19-24	\$ 6,305,000
Excise Tax Revenue Refunding Bonds, Series 2007, Original Issue \$9.120 million	5.0%	7/1/16-17	1,070,000
Excise Tax Revenue Refunding Bonds, Series 2012, Original Issue \$8.395 million	4.5%	7/1/25-26	8,395,000
Excise Tax Revenue Refunding Bonds Series 2014, Original Issue \$7.9053 million	.66%	7/1/16-17	1,195,300
Excise Tax Revenue Refunding Bonds, Series 2015, Original Issue \$10.390 million	1.3%	7/1/16-19	10,220,000
Total Revenue Bonds:			<u>\$ 27,185,300</u>

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, 2016 to July 1, 2027. The future excise tax revenues pledged, which include sales tax, franchise tax, vehicle license fees, unrestricted fines and forfeitures and permits, will repay \$37,695,000 in excise tax revenue refunding bonds, plus \$20,477,099 of interest. Total principal and interest payments on the bonds are expected to require less than 40% of pledged revenues. Pledged revenue for the current year was \$19,351,679. In the current year, total principal paid was \$5,260,000 and interest paid was \$808,167.

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

Changes in long-term obligations for the year ended June 30, 2016 are as follows:

	(Restated) July 1, 2015	Increases	Decreases	June 30, 2016	Due Within One Year
Governmental Activities					
Bonds Payable:					
Revenue Bonds	\$ 10,329,700	\$ 8,030,000	\$ (7,850,000)	\$ 10,509,700	\$ 484,700
Deferred Amounts:					
Premiums	9,362	-	(9,362)	-	-
Total Bonds Payable	<u>10,339,062</u>	<u>8,030,000</u>	<u>(7,859,362)</u>	<u>10,509,700</u>	<u>484,700</u>
Other Liabilities:					
Compensated Absences	390,430	295,222	(270,246)	415,406	278,353
Net Pension Liability	9,696,734	1,033,547	-	10,730,281	-
Total Other Liabilities	<u>10,087,164</u>	<u>1,328,769</u>	<u>(270,246)</u>	<u>11,145,687</u>	<u>278,353</u>
Governmental Activities Long-term Liabilities	<u>\$ 20,426,226</u>	<u>\$ 9,358,769</u>	<u>\$ (8,129,608)</u>	<u>\$ 21,655,387</u>	<u>\$ 763,053</u>
Business-Type Activities					
Bonds Payable and Related Interest:					
Revenue Bonds	\$ 31,930,300	\$ -	\$ (4,745,000)	\$ 27,185,300	\$ 4,565,300
Capital Appreciation Bond Interest	8,740,542	796,686	-	9,537,228	-
Deferred Amounts:					
Premium	999,025	-	(112,139)	886,886	-
Total Bonds Payable	<u>41,669,867</u>	<u>796,686</u>	<u>(4,857,139)</u>	<u>37,609,414</u>	<u>4,565,300</u>
Other Liabilities:					
Compensated Absences	73,107	50,115	(43,630)	79,592	44,939
Net Pension Liability	861,400	76,207	-	937,607	-
Total Other Liabilities	<u>934,507</u>	<u>126,322</u>	<u>(43,630)</u>	<u>1,017,199</u>	<u>44,939</u>
Business-Type Activities Long-term Liabilities	<u>\$ 42,604,374</u>	<u>\$ 923,008</u>	<u>\$ (4,900,769)</u>	<u>\$ 38,626,613</u>	<u>\$ 4,610,239</u>

The compensated absences balance was restated by \$32,941 as employment taxes were not included in the previous year's balance.

Debt service requirements on long-term debt at June 30, 2016 are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 484,700	\$ 219,670	\$ 4,565,300	\$ 572,026
2018	1,235,000	215,192	3,920,000	480,736
2019	1,240,000	181,814	4,000,000	429,776
2020	885,000	146,470	1,400,000	3,287,776
2021	900,000	129,300	1,330,000	3,357,776
2022-2026	4,760,000	377,916	11,970,000	11,059,154
2027	1,005,000	19,493	-	-
Total	<u>\$ 10,509,700</u>	<u>\$ 1,289,855</u>	<u>\$ 27,185,300</u>	<u>\$ 19,187,244</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Long-Term Obligations (Continued)

For the year ended June 30, 2016 the City issued \$8,030,000 of excise tax revenue refunding obligations (second series 2015) for the advance refunding of \$7,335,000 of excise tax revenue obligations (a portion of series 2007). 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 refunded portion of the 2007 series bonds is 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 twelve years by \$1,102,828 and resulted in an economic gain of \$991,929. The difference between the reacquisition price and the net carrying amount of the old debt resulted in a deferred amount on refunding equal to \$590,377 that will be amortized over the life of the refunding bonds and reported as deferred outflows of resources.

D. Fund Balance

The following represents the classifications of the City's fund balance for fiscal year ended June 30, 2016:

	General Fund	Streets Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Totals
Nonspendable:					
Prepays	\$ 86,203	\$ -	\$ -	\$ 15,000	\$ 101,203
Restricted:					
Streets	-	153,445	-	799,966	953,411
Court Improvements	38,442	-	-	-	38,442
Criminal Case Processing	39,413	-	-	-	39,413
Police Department Programs	-	-	-	112,205	112,205
Parks Capital Improvements	-	-	-	1,791,686	1,791,686
Flood Control	-	-	2,199,734	167,849	2,367,583
Police Capital Improvements	-	-	-	1,194	1,194
Summit CFD Capital Improvements	-	-	-	313,379	313,379
Fairfield CFD Capital Improvements	-	-	-	781,780	781,780
Committed					
Affordable Housing	266,258	-	-	-	266,258
Court Enhancements	122,982	-	-	-	122,982
Military Park	-	-	-	11,739	11,739
Art in Public Places	-	-	-	53,667	53,667
Capital Improvements	-	-	9,627,510	-	9,627,510
Assigned					
Debt Service	1,300,000	-	-	-	1,300,000
Budget Carryovers	285,000	-	-	-	285,000
Streets	-	506,500	-	-	506,500
Police Department Programs	-	-	-	5,781	5,781
Police Explorer's Program	-	-	-	7,897	7,897
Anti-Work Task Force	-	-	-	3,763	3,763
Special Events	-	-	-	1,780	1,780
Park Benches	-	-	-	142	142
Unassigned	7,611,935	-	-	(36,684)	7,575,251
Total Fund Balance	<u>\$ 9,750,233</u>	<u>\$ 659,945</u>	<u>\$ 11,827,244</u>	<u>\$ 4,031,144</u>	<u>\$ 26,268,566</u>

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

E. Prior Period Adjustments and Restatements

During the current year, the City recorded various prior period adjustments to correct prior year balances. The more significant prior year corrections are listed below:

- Recognizing court enhancement fees, time payment fees and fill-in-the-gap revenues in the current year that were previously reported as deferred inflows of resources.
- Recognizing in-lieu fees for affordable housing programs that were previously reported as deferred inflows of resources.
- Recording the deferred outflows of resources on revenue refunding bonds that had previously been eliminated in error.
- Recording the court receivable and related deferred inflows of resources.
- Properly capitalizing interest on wastewater construction projects.
- Eliminating negative development impact fee fund balances.
- Recognizing refunds due from the Arizona Department of Transportation for past projects.

Additionally, the City recorded a restatement of net position to accurately reflect a change in accounting policy in regards to the allocation of the net pension liability between the Governmental Activities and Business-type Activities (BTA). The net effect of the prior period adjustments and restatement on net position and fund balance for the year ended June 30, 2016 are as follows:

Governmental Activities:

	<u>General Fund</u>	<u>Streets Fund</u>	<u>Capital Improvement Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Activities</u>
Fund Balance/Net Position at July 1, 2015, as Previously Reported	\$ 12,763,826	\$ 374,027	\$ 8,077,065	\$ 4,607,697	\$ 41,042,240
Prior Year Corrections	563,222	2,652	(61,495)	66,902	990,584
Restatement Due to a Change in Accounting Policy:	-	-	-	-	(935,249)
Fund Balance/Net Position at July 1, 2015, as Adjusted	<u>\$ 13,327,048</u>	<u>\$ 376,679</u>	<u>\$ 8,015,570</u>	<u>\$ 4,674,599</u>	<u>\$ 41,097,575</u>

Business-type Activities:

	<u>Wastewater Fund/BTA</u>
Net Position at July 1, 2015, as Previously Reported	\$ 68,648,795
Prior Year Corrections	339,719
Restatement Due to a Change in Accounting Policy:	<u>935,249</u>
Net Position at July 1, 2015, as Adjusted	<u>\$ 69,923,763</u>

CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 OTHER INFORMATION

A. 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 City joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

The City joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members. The 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.

B. Retirement Plans

Cost-Sharing and Agent Multiple Employer Pension Plans

The City contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS) for police officers. The plans are component units of the State of Arizona.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Cost-Sharing and Agent Multiple Employer Pension Plans (Continued)

At June 30, 2016, 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	Governmental Activities	Business-Type Activities	Total
Net Pension Liability	\$ 10,730,281	\$ 937,607	\$ 11,667,888
Deferred Outflows of Resources	2,188,797	124,510	2,313,307
Deferred Inflows of Resources	1,225,257	79,180	1,304,437
Pension Expense	1,008,311	71,176	1,079,487

The City had \$16,929 of accrued payroll and employee benefits for outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the City reported \$938,304 of pension expenditures in the governmental funds and \$63,902 of pension expenses in the enterprise funds related to all pension plans to which it contributes.

Arizona State Retirement System

Plan Description – City employees not covered by the other pension plan described on the following pages participate 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); 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 noted on the following page.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

	Retirement	
	Initial Membership Date:	
	Before July 1, 2011	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 percentage per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits

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 earnings. 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, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% for retirement and 0.12% 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 11.47% (10.85% for retirement, 0.50% for the health insurance premium benefit, and 0.12% 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 9.36% (9.17% for retirement, 0.13% for health insurance premium benefit, and 0.06% 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 to the pension plan for the year ended June 30, 2016, was \$570,333. The City's contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions as noted on the following page.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Year Ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 26,283	\$ 6,308
2015	27,631	5,620
2014	23,949	9,579

During the fiscal year ended June 30, 2016, the City paid for ASRS pension and OPEB contributions as follows: 79.4% from the General Fund and 20.6% from the Wastewater Fund.

Pension Liability – At June 30, 2016, the City reported a liability of \$8,090,772 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015.

The City’s reported liability at June 30, 2016, increased by \$629,265 from the City’s prior year liability of \$7,461,507 because of changes in the ASRS’ net pension liability and the City’s proportionate share of that liability. The ASRS’ publicly available financial report provides details on the change in the net pension liability.

The City’s proportion of the net pension liability was based on the City’s FY 2015 contributions. The City’s proportion measured as of June 30, 2015, was 0.051940%, which was an increase of 0.001513% from its proportion measured as of June 30, 2014.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$614,193. At June 30, 2016, 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	\$ 220,780	\$ 423,965
Net difference between projected and actual earnings on pension plan investments	-	259,291
Changes in proportion and differences between City contributions and proportionate share of contributions	302,215	-
City contributions subsequent to the measurement date	570,333	-
Total	\$ 1,093,328	\$ 683,256

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

The \$570,333 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 ended June 30, 2017. 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:

<u>Year Ended June 30,</u>	
2017	\$ 6,441
2018	(182,209)
2019	(171,670)
2020	187,177

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

Actuarial Valuation Date	June 30, 2014
Actuarial Roll Forward Date	June 30, 2015
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, 2014 valuation were based on the results of an actuarial study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79% 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:

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Real Rate of Return
Equity	58%	6.79%	3.94%
Fixed Income	25%	3.70%	0.93%
Commodities	2%	3.93%	0.08%
Real Estate	10%	4.25%	0.42%
Multi-Asset Class	5%	3.41%	0.17%
Total	<u>100%</u>		<u>5.54%</u>
Inflation			<u>3.25%</u>
Expected Arithmetic Nominal Return			<u>8.79%</u>

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8%, which is less than the long-term expected rate of return of 8.79%. 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 statutes. 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 City’s Proportionate Share of the ASRS 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%, 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%) or 1 percentage point higher (9%) than the current rate.

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's Proportionate Share of the Net Pension Liability	\$ 10,601,676	\$ 8,090,772	\$ 6,369,980

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS)

Plan Description – City police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS website at www.psprs.com.

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

	Initial Membership Date:	
	Before January 1, 2012	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	
<u>Survivor Benefit</u> 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	

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50% of the member's compensation for up to 12 months.

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	7
Active Employees	24
Total	40

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS 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. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police
Active Members - Pension	11.65%
City:	
Pension	23.19%
Health Insurance Premium Benefit	0.00%

In addition, statute required the City to contribute at the actuarially determined rate of 28.62 percent of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the PSPRS would typically fill.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

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, 2016, were:

	<u>PSPRS Police</u>
Pension:	
Contributions Made	\$ 431,873
Health Insurance Premium Benefit:	
Annual OPEB Cost	-
Contributions Made	-

During the fiscal year 2016, the City paid for PSPRS and OPEB contributions 100% from the General Fund.

Pension Liability – At June 30, 2016, the City reported the following net pension liability:

	<u>Net Pension Liability</u>
PSPRS Police	\$ 3,577,116

The net pension liability was measured as of June 30, 2015, 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 liability as of June 30, 2015, reflects the following changes of benefit terms and actuarial assumptions.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the City's net pension liability as a result of the statutory adjustments is not known.

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

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Inflation	4.0%
Permanent Benefit Increase	Included
Mortality Rates	RP-2000 mortality table (adjusted by 105% for both males and females)

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Actuarial assumptions used in the June 30, 2015, 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 expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short-Term Investments	2%	0.75%
Absolute Return	5%	4.11%
Risk Parity	4%	5.13%
Fixed Income	7%	2.92%
Real Assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real Estate	10%	4.48%
Credit Opportunities	13%	7.08%
Non-U.S. Equity	14%	8.25%
U.S. Equity	16%	6.23%
Total	100%	

Pension Discount Rates – The following discount rates were used to measure the total pension liabilities:

	PSPRS
	Police
Discount Rates	7.85%

The projection of cash flows used to determine the PSPRS 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 the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' 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.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Changes in the Agent Plans Net Pension Liability – The following tables present changes in the City’s net pension liability for the PSPRS – Police pension plans as follows:

	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2014	\$ 8,846,249	\$ 5,174,788	\$ 3,671,461
Changes for the Year:			
Service Cost	299,781	-	299,781
Interest on the Total Pension Liability	690,996	-	690,996
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(309,534)	-	(309,534)
Contributions - Employer	-	396,718	(396,718)
Contributions - Employee	-	185,850	(185,850)
Net Investment Income	-	193,322	(193,322)
Benefit Payments, Including Refunds of Employee Contributions	(387,285)	(387,285)	-
Administrative Expenses	-	(5,098)	5,098
Other Changes	-	4,796	(4,796)
Net Changes	293,958	388,303	(94,345)
Balances as of June 30, 2015	<u>\$ 9,140,207</u>	<u>\$ 5,563,091</u>	<u>\$ 3,577,116</u>

Sensitivity of the City’s Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s net pension liability calculated using the discount rates 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	Current Discount Rate	1% Increase
PSPRS Police:			
Rate	6.85%	7.85%	8.85%
Net Pension Liability	\$ 4,751,294	\$ 3,577,116	\$ 2,604,503

Pension Plan Fiduciary Net Position – Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expense – For the year ended June 30, 2016, the City recognized the following pension expense:

PSPRS Police	Pension Expense <u>\$ 422,515</u>
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**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Pension Deferred Outflows/Inflows of Resources – At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS - Police	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 462,249
Changes of assumptions or other inputs	611,664	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	176,442	158,932
City Contributions Subsequent to the Measurement Date	431,873	-
Total	\$ 1,219,979	\$ 621,181

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	PSPRS Police
2017	\$ 31,160
2018	31,160
2019	31,159
2020	84,139
2021	13,535
Thereafter	(24,228)

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014 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 funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. 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.

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Projections of benefits are based on (1) the plans as understood by the City and plans' members 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 that are 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 and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are as follows:

PSPRS Contribution Requirements

Actuarial Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.0%

Agent Plan OPEB Trend Information – The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

<u>Year Ended June 30,</u>	<u>Annual OPEB</u>	<u>Percentage of</u>	<u>Net OPEB</u>
	<u>Cost</u>	<u>Annual Cost</u>	<u>Obligation</u>
		<u>Contributed</u>	
PSPRS Police:			
2016	\$ -	100.00%	\$ -
2015	15,257	100.00	-
2014	14,179	100.00	-

**CITY OF SEDONA, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 OTHER INFORMATION (CONTINUED)

B. Retirement Plans (Continued)

Public Safety Personnel Retirement System (Continued)

Agent Plan OPEB Funded Status – The funded status of the health insurance premium benefit plans as of the most recent valuation date, June 30, 2015 is as follows:

	PSPRS Police
Actuarial Value of Assets (a)	\$ 276,971
Actuarial Accrued Liability (b)	169,865
Unfunded Actuarial Accrued Liability (Funding Excess) (b) - (a)	(107,106)
Funded Ratio (a) / (b)	163.05%
Annual Covered Payroll (c)	1,557,553
Unfunded Actuarial Accrued Liability (Funding Excess) as a Percentage of Covered Payroll (b) - (a) / (c)	-6.88%

The funded status of the all the PSPRS health insurance premium benefit plans in the June 30, 2015 actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

PSPRS

Actuarial Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent closed for underfunded actuarial accrued liability, open for excess
Remaining Amortization Period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market corridor
Actuarial Assumptions:	
Investment Rate of Return	7.85%
Projected Salary Increases	4.0% - 8.0%
Wage Growth	4.0%

C. Contingent Liabilities

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 for the period ending June 30, 2016.

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**REQUIRED SUPPLEMENTARY INFORMATION
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**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COST SHARING PENSION PLANS
JUNE 30, 2016 AND ONE YEAR PRIOR**

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2016 (2015)	2015 (2014)
	<u>0.051940%</u>	<u>0.050427%</u>
City's Proportion of the Net Pension Liability	0.051940%	0.050427%
City's Proportionate Share of the Net Pension Liability	\$ 8,090,772	\$ 7,461,507
City's Covered-Employee Payroll	4,898,994	4,658,483
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered -Employee Payroll	165.15%	160.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.35%	69.49%

**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
AGENT PENSION PLANS
JUNE 30, 2016**

PSPRS Police	Reporting Fiscal Year (Measurement Date)	
	2016	2015
	(2015)	(2014)
Total Pension Liability		
Service Cost	\$ 299,781	\$ 226,906
Interest on the Total Pension Liability	690,996	603,199
Changes of Benefit Terms	-	141,278
Differences Between Expected and Actual Experience in the Measurement of the Pension Liability	(309,534)	(285,532)
Changes of Assumptions or Other Inputs	-	872,086
Benefit Payments, Including Refunds of Employee Contributions	(387,285)	(564,587)
Net Change in Total Pension Liability	293,958	993,350
Total Pension Liability - Beginning	8,846,249	7,852,899
Total Pension Liability - Ending (a)	9,140,207	8,846,249
Plan Fiduciary Net Position		
Contributions - Employer	396,718	287,018
Contributions - Employee	185,850	158,370
Net Investment Income	193,322	647,862
Benefit Payments, Including Refunds of Employee Contributions	(387,285)	(564,587)
Administrative Expenses	(5,098)	-
Other Changes	4,796	(241,967)
Net Change in Plan Fiduciary Net Position	388,303	286,696
Plan Fiduciary Net Position - Beginning	5,174,788	4,888,092
Plan Fiduciary Net Position - Ending (b)	5,563,091	5,174,788
City's Net Pension Liability (Asset) - Ending (a) - (b)	\$ 3,577,116	\$ 3,671,461
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.86%	58.50%
Covered-Employee Payroll	\$ 1,881,985	\$ 1,651,848
City's Net Pension Liability (Asset) as a Percentage of Covered- Employee Payroll	190.07%	222.26%

**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF CITY PENSION CONTRIBUTIONS
JUNE 30, 2016**

Arizona State Retirement System

	Reporting Fiscal Year		
	2016	2015	2014
Statutorily Required Contribution	\$ 570,333	\$ 520,998	\$ 509,997
City's Contribution in Relation to the Statutorily Required Contribution	570,333	520,998	509,997
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	\$ 5,180,296	\$ 4,898,994	\$ 4,658,483
City's Contributions as a Percentage of Covered- Employee Payroll	11.01%	10.63%	10.95%

PSPRS Police

	Reporting Fiscal Year		
	2016	2015	2014
Actuarially Determined Contribution	\$ 431,873	\$ 293,040	\$ 287,018
City's Contribution in Relation to the Actuarially Determined Contribution	431,873	293,040	287,018
City's Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
City's Covered-Employee Payroll	\$ 1,983,869	\$ 1,881,985	\$ 1,651,848
City's Contributions as a Percentage of Covered- Employee Payroll	21.77%	15.57%	17.38%

**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO PENSION SCHEDULES
JUNE 30, 2016**

NOTE 1 ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial 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	Entry age normal
Amortization Level	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining Amortization Period as of the 2014 Actuarial Valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset Valuation Method	7-year smoothed market value; 80%/120% market corridor
Actuarial Assumptions:	
Investment Rate of Return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected Salary Increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% .
Wage Growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%.
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 (adjusted by 105% for both males and females).

NOTE 2 INFORMATION PRIOR TO MEASUREMENT DATE

Information prior to the measurement date (June 30, 2014) was not available.

**CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016**

Health Insurance Premium Benefits

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funding Excess) as a Percentage of Covered Payroll
PSPRS Police						
2015	\$ 276,971	\$ 169,865	\$ (107,106)	163.05%	\$ 1,557,553	0.00%
2014	247,352	140,876	(106,476)	175.58%	1,651,848	0.00%
2013	-	155,634	155,634	0.00%	1,204,424	12.92%

CITY OF SEDONA, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016

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.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Grants and Donations Fund - To account for federal, state and other grants and contributions which are restricted for a specific use.

Summit II Community Facilities District Fund - 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.

Fairfield Community Facilities District Fund - 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 PROJECTS FUNDS

Art in Public Places Fund - To account for monies received from the estate of Stella Carruth and other assigned resources which are used for park and recreation improvements.

Development Impact Fees Fund – 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.

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**CITY OF SEDONA, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Special Revenue			Capital Projects		Total Nonmajor Governmental Funds
	Grants and Donations	Summit II CFD	Fairfield CFD	Art in Public Places	Development Impact Fees	
Assets						
Cash and Investments	\$ 164,059	\$ 312,151	\$ 981,296	\$ 53,917	\$ 2,826,020	\$ 4,337,443
Receivables						
Taxes Receivable	-	1,228	29,770	-	-	30,998
Intergovernmental Receivable	19,290	-	-	-	-	19,290
Prepaid Items	15,000	-	-	-	-	15,000
Total Assets	\$ 198,349	\$ 313,379	\$ 1,011,066	\$ 53,917	\$ 2,826,020	\$ 4,402,731
Liabilities and Fund Balance						
Liabilities						
Accounts Payable	\$ 13,042	\$ -	\$ 157,708	\$ 250	\$ 102,009	\$ 273,009
Retainage Payable	-	-	41,808	-	-	41,808
Unearned Revenue	27,000	-	-	-	-	27,000
Total Liabilities	40,042	-	199,516	250	102,009	341,817
Deferred Inflows of Resources	-	-	29,770	-	-	29,770
Fund Balance						
Nonspendable	15,000	-	-	-	-	15,000
Restricted	112,205	313,379	781,780	-	2,760,695	3,968,059
Committed	11,739	-	-	53,667	-	65,406
Assigned	19,363	-	-	-	-	19,363
Unassigned	-	-	-	-	(36,684)	(36,684)
Total Fund Balance	158,307	313,379	781,780	53,667	2,724,011	4,031,144
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 198,349	\$ 313,379	\$ 1,011,066	\$ 53,917	\$ 2,826,020	\$ 4,402,731

CITY OF SEDONA, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2016

	Special Revenue			Capital Projects		Total Nonmajor Governmental Funds
	Grants and Donations	Summit II CFD	Fairfield CFD	Art in Public Places	Development Impact Fees	
Revenue						
In Lieu Taxes	\$ -	\$ 51,428	\$ 119,081	\$ -	\$ -	\$ 170,509
Intergovernmental Revenue	57,090	-	-	-	-	57,090
Charges for Services	1,543	-	-	-	-	1,543
Contributions and Donations	25,040	-	-	-	-	25,040
Impact Fees	-	-	-	-	231,772	231,772
Investment Earnings	875	1,541	4,903	203	49,725	57,247
Total Revenue	84,548	52,969	123,984	203	281,497	543,201
Expenditures						
Current						
General Government	21,290	-	-	-	-	21,290
Public Safety	76,878	-	-	-	-	76,878
Culture and Recreation	28,232	-	-	-	-	28,232
Debt Service						
Principal Retirement	-	-	-	-	18,630	18,630
Interest on Long-Term Debt	-	-	-	-	547	547
Capital Outlay	-	16,064	404,998	32,500	627,831	1,081,393
Total Expenditures	126,400	16,064	404,998	32,500	647,008	1,226,970
Excess (Deficiency) of Revenue Over Expenditures	(41,852)	36,905	(281,014)	(32,297)	(365,511)	(683,769)
Other Financing Sources (Uses)						
Transfers In	9,777	-	-	30,537	-	40,314
Net Change in Fund Balance	(32,075)	36,905	(281,014)	(1,760)	(365,511)	(643,455)
Fund Balance						
Beginning of Year, as Restated	190,382	276,474	1,062,794	55,427	3,089,522	4,674,599
End of Year	\$ 158,307	\$ 313,379	\$ 781,780	\$ 53,667	\$ 2,724,011	\$ 4,031,144

**CITY OF SEDONA, ARIZONA
CAPITAL IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Intergovernmental Revenue	\$ 750,000	\$ 740,993	\$ (9,007)
Contributions and Donations	826,667	204,556	(622,111)
Investment Earnings	-	58,186	58,186
Total Revenue	<u>1,576,667</u>	<u>1,003,735</u>	<u>(572,932)</u>
Expenditures			
Capital Outlay	<u>4,531,893</u>	<u>4,045,970</u>	<u>485,923</u>
Excess (Deficiency) of Revenue Over Expenditures	(2,955,226)	(3,042,235)	(87,009)
Other Financing Sources (Uses)			
Transfers In	-	6,884,446	6,884,446
Transfers Out	(237,000)	(30,537)	206,463
Total Other Financing Sources (Uses)	<u>(237,000)</u>	<u>6,853,909</u>	<u>7,090,909</u>
Net Change in Fund Balance	(3,192,226)	3,811,674	7,003,900
Fund Balance			
Beginning of Year, as Restated	3,192,226	8,015,570	4,823,344
End of Year	<u>\$ -</u>	<u>\$ 11,827,244</u>	<u>\$ 11,827,244</u>

**CITY OF SEDONA, ARIZONA
GRANTS AND DONATIONS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	Original and Final Budget	Actual	Variance with Final Budget
Revenue			
Intergovernmental Revenue	\$ 382,000	\$ 57,090	\$ (324,910)
Charges for Services	8,580	1,543	(7,037)
Contributions and Donations	271,920	25,040	(246,880)
Investment Earnings	-	875	875
Total Revenue	<u>662,500</u>	<u>84,548</u>	<u>(577,952)</u>
Expenditures			
Current			
General Government	199,000	21,290	177,710
Public Safety	247,000	76,878	170,122
Public Works and Streets	25,000	-	25,000
Culture and Recreation	198,749	28,232	170,517
Total Expenditures	<u>669,749</u>	<u>126,400</u>	<u>543,349</u>
Excess (Deficiency) of Revenue Over Expenditures	(7,249)	(41,852)	(34,603)
Other Financing Sources (Uses)			
Transfers In	<u>-</u>	<u>9,777</u>	<u>9,777</u>
Net Change in Fund Balance	(7,249)	(32,075)	(24,826)
Fund Balance			
Beginning of Year, as Restated	7,249	190,382	183,133
End of Year	<u>\$ -</u>	<u>\$ 158,307</u>	<u>\$ 158,307</u>

**CITY OF SEDONA, ARIZONA
SUMMIT II COMMUNITY FACILITIES DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Taxes			
In Lieu Taxes	\$ 36,500	\$ 51,428	\$ 14,928
Investment Earnings	500	1,541	1,041
Total Revenue	<u>37,000</u>	<u>52,969</u>	<u>15,969</u>
Expenditures			
Capital Outlay	<u>150,000</u>	<u>16,064</u>	<u>133,936</u>
Excess (Deficiency) of Revenue Over Expenditures	(113,000)	36,905	149,905
Fund Balance			
Beginning of Year	113,000	276,474	163,474
End of Year	<u>\$ -</u>	<u>\$ 313,379</u>	<u>\$ 313,379</u>

**CITY OF SEDONA, ARIZONA
 FAIRFIELD COMMUNITY FACILITIES DISTRICT FUND
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Taxes			
In Lieu Taxes	\$ 120,000	\$ 119,081	\$ (919)
Investment Earnings	2,000	4,903	2,903
Total Revenue	<u>122,000</u>	<u>123,984</u>	<u>1,984</u>
Expenditures			
Capital Outlay	<u>950,000</u>	<u>404,998</u>	<u>545,002</u>
Excess (Deficiency) of Revenue Over Expenditures	(828,000)	(281,014)	546,986
Fund Balance			
Beginning of Year	828,000	1,062,794	234,794
End of Year	<u>\$ -</u>	<u>\$ 781,780</u>	<u>\$ 781,780</u>

**CITY OF SEDONA, ARIZONA
ART IN PUBLIC PLACES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Investment Earnings	\$ 125	\$ 203	\$ 78
Expenditures			
Capital Outlay	<u>32,500</u>	<u>32,500</u>	<u>-</u>
Excess (Deficiency) of Revenue Over Expenditures	(32,375)	(32,297)	78
Other Financing Sources (Uses)			
Transfers In	<u>41,000</u>	<u>30,537</u>	<u>(10,463)</u>
Net Change in Fund Balance	8,625	(1,760)	(10,385)
Fund Balance			
Beginning of Year	-	55,427	55,427
End of Year	<u>\$ 8,625</u>	<u>\$ 53,667</u>	<u>\$ 45,042</u>

**CITY OF SEDONA, ARIZONA
DEVELOPMENT IMPACT FEE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Contributions and Donations	\$ 174,500	\$ -	\$ (174,500)
Impact Fees	190,800	231,772	40,972
Investment Earnings	28,000	49,725	21,725
Total Revenue	<u>393,300</u>	<u>281,497</u>	<u>(111,803)</u>
Expenditures			
Debt Service			
Principal Retirement	-	18,630	(18,630)
Interest on Long-Term Debt	-	547	(547)
Capital Outlay	3,094,170	627,831	2,466,339
Total Expenditures	<u>3,094,170</u>	<u>647,008</u>	<u>2,447,162</u>
Excess (Deficiency) of Revenue Over Expenditures	(2,700,870)	(365,511)	2,335,359
Fund Balance			
Beginning of Year, as Restated	3,132,870	3,089,522	(43,348)
End of Year	<u>\$ 432,000</u>	<u>\$ 2,724,011</u>	<u>\$ 2,292,011</u>

**CITY OF SEDONA, ARIZONA
WASTEWATER FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL (BUDGETARY BASIS)
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenue			
Charges for Services	\$ 6,039,000	\$ 5,690,470	\$ (348,530)
Taxes	4,109,000	4,497,550	388,550
Capacity Fees	275,000	541,045	266,045
Investment Earnings	155,000	179,734	24,734
Other	5,350	117,991	112,641
Total Revenue	<u>10,583,350</u>	<u>11,026,790</u>	<u>443,440</u>
Expenditures			
General Government			
Salaries, Wages and Benefits	1,502,167	1,557,593	(55,426)
Supplies and Other	2,397,906	1,855,232	542,674
Capital Outlay	8,142,118	5,542,394	2,599,724
Debt Service	5,417,081	5,412,247	4,834
Total Expenditures	<u>17,459,272</u>	<u>14,367,466</u>	<u>3,091,806</u>
Excess of Revenue Over Expenditures	(6,875,922)	(3,340,676)	3,535,246
Other Financing Sources (Uses)			
Transfers Out	<u>(90,000)</u>	<u>-</u>	<u>90,000</u>
Net Change in Fund Balance	(6,965,922)	(3,340,676)	3,625,246
Net Position			
Beginning of Year, As Restated	17,491,500	16,938,579	(552,921)
End of Year	<u>\$ 10,525,578</u>	<u>\$ 13,597,903</u>	<u>\$ 3,072,325</u>

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

Net Position, end of year, budgetary basis	\$ 13,597,903
Adjustments to reconcile to net position:	
Adjustments from prior years	52,985,184
Depreciation:	(2,593,175)
Capital Outlay	5,542,394
Principal paid on long-term debt	4,745,000
Premium on long-term debt	112,139
Capitalized Interest	299,117
Increase in long-term interest payable	(796,686)
Increase in compensated absences	(6,485)
Decrease in deferred outflows	(67,771)
Increase in net pension liability	(76,207)
Decrease in deferred inflows	71,452
Net Position, end of year	<u>\$ 73,812,865</u>

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STATISTICAL SECTION

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

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help readers assess the City's most significant local revenue source, the sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

**CITY OF SEDONA, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2007	2008	2009	2010
Governmental Activities				
Net Investment in Capital Assets	\$ 24,794,010	\$ 26,187,433	\$ 21,797,059	\$ 21,081,629
Restricted	7,469,407	7,688,303	10,987,109	9,929,271
Unrestricted	11,297,441	11,844,887	10,631,798	12,024,471
Total Governmental Activities Net Position	<u>\$ 43,560,858</u>	<u>\$ 45,720,623</u>	<u>\$ 43,415,966</u>	<u>\$ 43,035,371</u>
Business-type Activities				
Net Investment in Capital Assets	\$ 28,405,751	\$ 31,881,724	\$ 39,941,637	\$ 46,616,756
Restricted	1,240,451	587,477	100,818	92,327
Unrestricted	24,725,339	24,903,093	18,611,712	13,437,348
Total Business-type Activities Net Position	<u>\$ 54,371,541</u>	<u>\$ 57,372,294</u>	<u>\$ 58,654,167</u>	<u>\$ 60,146,431</u>
Primary Government				
Net Investment in Capital Assets	\$ 53,199,761	\$ 58,069,157	\$ 61,738,696	\$ 67,698,385
Restricted	8,709,858	8,275,780	11,087,927	10,021,598
Unrestricted	36,022,780	36,747,980	29,243,510	25,461,819
Total Primary Government Net Position	<u>\$ 97,932,399</u>	<u>\$103,092,917</u>	<u>\$102,070,133</u>	<u>\$103,181,802</u>

Source: City of Sedona, Arizona's Finance Department.

Fiscal Year

2011	2012	2013	2014	2015 Restated	2016
\$ 17,056,529	\$ 17,287,440	\$ 18,019,228	\$ 21,865,051	\$ 25,882,022	\$ 27,547,603
9,048,404	9,015,587	10,514,851	6,770,279	7,782,359	6,399,927
17,799,316	17,968,102	14,612,403	17,575,929	7,433,194	10,840,148
<u>\$ 43,904,249</u>	<u>\$ 44,271,129</u>	<u>\$ 43,146,482</u>	<u>\$ 46,211,259</u>	<u>\$ 41,097,575</u>	<u>\$ 44,787,678</u>
\$ 49,649,202	\$ 53,703,021	\$ 55,694,859	\$ 58,299,026	\$ 62,473,972	\$ 65,972,609
-	-	-	-	-	-
12,356,418	11,054,014	10,366,261	10,300,251	7,449,791	7,840,256
<u>\$ 62,005,620</u>	<u>\$ 64,757,035</u>	<u>\$ 66,061,120</u>	<u>\$ 68,599,277</u>	<u>\$ 69,923,763</u>	<u>\$ 73,812,865</u>
\$ 66,705,731	\$ 70,990,461	\$ 73,714,087	\$ 80,164,077	\$ 88,355,994	\$ 93,520,212
9,048,404	9,015,587	10,514,851	6,770,279	7,782,359	6,399,927
30,155,734	29,022,116	24,978,664	27,876,180	14,882,985	18,680,404
<u>\$105,909,869</u>	<u>\$109,028,164</u>	<u>\$109,207,602</u>	<u>\$114,810,536</u>	<u>\$111,021,338</u>	<u>\$118,600,543</u>

**CITY OF SEDONA, ARIZONA
CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2007	2008	2009	2010
Expenses				
Governmental Activities:				
General Government	\$ 7,881,431	\$ 7,600,727	\$ 8,608,913	\$ 7,445,612
Public Safety	3,310,253	3,717,862	3,643,936	3,618,539
Public Works and Streets	3,307,737	2,449,337	5,620,499	4,899,328
Community and Economic Development	-	-	-	-
Community Services	789,371	1,058,508	1,037,534	815,848
Culture and Recreation	-	-	-	-
Economic Development	-	-	-	-
Interest on Long-Term Debt	256,297	309,469	755,167	636,191
Total Governmental Activities	<u>15,545,089</u>	<u>15,135,903</u>	<u>19,666,049</u>	<u>17,415,518</u>
Business-Type Activities				
Wastewater	6,835,822	7,802,135	8,197,653	7,773,970
Total Business-Type Activities	<u>6,835,822</u>	<u>7,802,135</u>	<u>8,197,653</u>	<u>7,773,970</u>
Total Primary Government Expenses	<u>\$ 22,380,911</u>	<u>\$ 22,938,038</u>	<u>\$ 27,863,702</u>	<u>\$ 25,189,488</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$ 673,643	\$ 687,888	\$ 705,542	\$ 717,236
Public Safety	9,257	52,491	96,472	42,929
Public Works and Streets	276,348	364,474	200,290	159,839
Economic Development	-	-	-	-
Community Services	39,557	40,590	103,587	124,140
Culture and Recreation	-	-	-	-
Interest on Long-Term Debt	26,735	17,340	5,553	-
Operating Grants and Contributions	1,923,645	1,844,555	2,024,396	2,185,565
Capital Grants and Contributions	523,562	550,975	337,391	426,903
Total Governmental Activities Program Revenues	<u>3,472,747</u>	<u>3,558,313</u>	<u>3,473,231</u>	<u>3,656,612</u>
Business-Type Activities				
Charges for Services:				
Wastewater	4,098,647	3,696,431	3,789,413	4,335,777
Total Business-Type Activities Program Revenues	<u>4,098,647</u>	<u>3,696,431</u>	<u>3,789,413</u>	<u>4,335,777</u>
Total Primary Government Program Revenues	<u>\$ 7,571,394</u>	<u>\$ 7,254,744</u>	<u>\$ 7,262,644</u>	<u>\$ 7,992,389</u>

Fiscal Year					
2011	2012	2013	2014	2015 Restated	2016
\$ 5,688,858	\$ 5,602,556	\$ 5,231,759	\$ 5,314,798	\$ 5,802,810	\$ 6,564,561
3,009,197	2,486,555	2,654,768	3,691,142	4,208,855	4,353,279
2,531,632	3,204,078	5,635,022	3,986,709	3,352,131	3,025,476
-	-	1,834,854	932,919	2,200,510	-
1,357,077	2,004,255	974,564	426,571	-	-
-	-	-	-	557,038	1,810,593
-	-	-	-	-	1,336,234
583,175	567,901	559,672	563,158	442,506	319,545
<u>13,169,939</u>	<u>13,865,345</u>	<u>16,890,639</u>	<u>14,915,297</u>	<u>16,563,850</u>	<u>17,409,688</u>
<u>7,618,142</u>	<u>7,618,960</u>	<u>8,090,104</u>	<u>7,890,927</u>	<u>8,159,579</u>	<u>7,137,688</u>
<u>7,618,142</u>	<u>7,618,960</u>	<u>8,090,104</u>	<u>7,890,927</u>	<u>8,159,579</u>	<u>7,137,688</u>
<u>\$ 20,788,081</u>	<u>\$ 21,484,305</u>	<u>\$ 24,980,743</u>	<u>\$ 22,806,224</u>	<u>\$ 24,723,429</u>	<u>\$ 24,547,376</u>
\$ 189,417	\$ 289,510	\$ 78,355	\$ 89,021	\$ 318,200	\$ 674,762
200,129	202,465	154,786	134,164	49,218	31,570
139,856	27,583	90,065	70,943	3,870	4,745
-	-	22,270	381,803	402,483	-
57,475	64,714	68,367	57,697	95,716	-
-	-	-	-	-	104,217
1,732,206	1,776,788	1,970,762	1,844,336	1,119,695	1,056,235
918,037	688,239	779,462	758,272	1,640,791	1,177,321
<u>3,237,120</u>	<u>3,049,299</u>	<u>3,164,067</u>	<u>3,336,236</u>	<u>3,629,973</u>	<u>3,048,850</u>
<u>4,393,291</u>	<u>5,159,442</u>	<u>5,884,685</u>	<u>5,908,088</u>	<u>6,093,385</u>	<u>6,349,506</u>
<u>4,393,291</u>	<u>5,159,442</u>	<u>5,884,685</u>	<u>5,908,088</u>	<u>6,093,385</u>	<u>6,349,506</u>
<u>\$ 7,630,411</u>	<u>\$ 8,208,741</u>	<u>\$ 9,048,752</u>	<u>\$ 9,244,324</u>	<u>\$ 9,723,358</u>	<u>\$ 9,398,356</u>

(Continued)

**CITY OF SEDONA, ARIZONA
CHANGES IN NET POSITION (CONCLUDED)
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

(Concluded)	Fiscal Year			
	2007	2008	2009	2010
Net (Expense)/Revenue				
Governmental Activities	\$ (12,072,342)	\$ (11,577,590)	\$ (16,192,818)	\$ (13,758,906)
Business-Type Activities	(2,737,175)	(4,105,704)	(4,408,240)	(3,438,193)
Total Primary Government Net Expense	<u>\$ (14,809,517)</u>	<u>\$ (15,683,294)</u>	<u>\$ (20,601,058)</u>	<u>\$ (17,197,099)</u>
General Revenues and Other				
Changes in Net Position				
Governmental Activities:				
Taxes:				
Sales Taxes	\$ 8,432,983	\$ 8,571,160	\$ 8,097,544	\$ 7,208,703
Franchise Taxes	640,752	667,237	661,177	666,326
In Lieu Taxes	248,220	304,252	569,667	393,293
Impact Fees	-	-	-	-
State urban revenue sharing	1,241,513	1,538,883	1,637,088	1,411,823
State Sales Taxes	1,039,344	1,004,970	870,023	802,470
Auto-in-Lieu	603,640	585,027	593,707	551,996
Bed tax in-Lieu	-	-	-	-
Investment Earnings	1,044,373	1,021,475	735,011	533,139
Gain on Sale of Capital Assets	-	-	-	-
Other	44,178	44,351	244,088	1,405,705
Transfers	-	-	479,856	404,856
Total Governmental Activities	<u>13,295,003</u>	<u>13,737,355</u>	<u>13,888,161</u>	<u>13,378,311</u>
Business-Type Activities:				
Sales Taxes	5,732,824	5,683,318	5,435,186	4,925,801
Investment Earnings	1,493,451	1,423,139	734,783	409,512
Transfers	-	-	(479,856)	(404,856)
Total Business-Type Activities	<u>7,226,275</u>	<u>7,106,457</u>	<u>5,690,113</u>	<u>4,930,457</u>
Total Primary Government	<u>\$ 20,521,278</u>	<u>\$ 20,843,812</u>	<u>\$ 19,578,274</u>	<u>\$ 18,308,768</u>
Change in Net Position				
Governmental Activities	\$ 1,222,661	\$ 2,159,765	\$ (2,304,657)	\$ (380,595)
Business-Type Activities	4,489,100	3,000,753	1,281,873	1,492,264
Total Primary Government	<u>\$ 5,711,761</u>	<u>\$ 5,160,518</u>	<u>\$ (1,022,784)</u>	<u>\$ 1,111,669</u>

Fiscal Year

2011	2012	2013	2014	2015 Restated	2016
\$ (9,932,819)	\$ (10,816,046)	\$ (13,726,572)	\$ (11,579,061)	\$ (12,933,877)	\$ (14,360,838)
(3,224,851)	(2,459,518)	(2,205,419)	(1,982,839)	(2,066,194)	(788,182)
<u>\$ (13,157,670)</u>	<u>\$ (13,275,564)</u>	<u>\$ (15,931,991)</u>	<u>\$ (13,561,900)</u>	<u>\$ (15,000,071)</u>	<u>\$ (15,149,020)</u>
\$ 7,799,486	\$ 7,729,483	\$ 8,824,918	\$ 10,400,704	\$ 12,050,907	\$ 18,004,940
699,088	713,577	720,455	738,631	766,728	789,754
-	-	-	-	-	622,224
-	-	-	-	-	-
1,064,334	846,624	1,024,645	1,118,082	1,214,315	1,207,731
830,562	783,825	821,056	873,126	916,721	948,696
543,380	476,438	483,343	508,519	534,404	577,681
-	380,270	692,049	500,968	488,937	-
166,085	215,593	127,098	255,995	210,386	307,030
-	-	-	-	-	11,806
88,974	37,116	64,367	164,187	22,863	78,629
-	-	63,842	83,626	88,235	(4,497,550)
<u>11,191,909</u>	<u>11,182,926</u>	<u>12,821,773</u>	<u>14,643,838</u>	<u>16,293,496</u>	<u>18,050,941</u>
5,413,073	5,002,648	4,638,664	4,478,074	4,046,986	-
134,460	208,284	111,930	126,548	73,193	179,734
-	-	(63,842)	(83,626)	(88,235)	4,497,550
<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>	<u>4,677,284</u>
<u>\$ 16,739,442</u>	<u>\$ 16,393,858</u>	<u>\$ 17,508,525</u>	<u>\$ 19,164,834</u>	<u>\$ 20,325,440</u>	<u>\$ 22,728,225</u>
\$ 1,259,090	\$ 366,880	\$ (1,124,647)	\$ 3,064,777	\$ 3,359,619	\$ 3,690,103
2,322,682	2,751,414	1,304,085	2,538,157	1,965,750	3,889,102
<u>\$ 3,581,772</u>	<u>\$ 3,118,294</u>	<u>\$ 179,438</u>	<u>\$ 5,602,934</u>	<u>\$ 5,325,369</u>	<u>\$ 7,579,205</u>

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**CITY OF SEDONA, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

	Fiscal Year			
	2007	2008	2009	2010
General Fund:				
Unreserved	<u>\$ 10,163,442</u>	<u>\$ 10,273,435</u>	<u>\$ 9,468,179</u>	<u>\$ 11,157,413</u>
All Other Governmental Funds				
Unreserved, Reported in:				
Special Revenue Funds	\$ 3,708,805	\$ 3,815,146	\$ 3,662,174	\$ 2,700,657
Debt Service Funds	274,795	225,510	(1,923)	-
Capital Projects Funds	<u>3,722,877</u>	<u>12,754,384</u>	<u>10,829,107</u>	<u>10,163,223</u>
Total All Other Governmental Funds	<u>\$ 7,706,477</u>	<u>\$ 16,795,040</u>	<u>\$ 14,489,358</u>	<u>\$ 12,863,880</u>

	Fiscal Year					
	2011	2012	2013	2014	2015 Restated	2016
General Fund:						
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,203
Restricted	-	-	-	-	1,794,750	77,855
Committed	-	-	-	1,626,131	-	389,240
Assigned	-	-	-	-	-	1,585,000
Unassigned	<u>12,403,438</u>	<u>12,783,938</u>	<u>14,295,777</u>	<u>15,888,042</u>	<u>11,449,459</u>	<u>7,611,935</u>
Total General Fund	<u>\$ 12,403,438</u>	<u>\$ 12,783,938</u>	<u>\$ 14,295,777</u>	<u>\$ 17,514,173</u>	<u>\$ 13,244,209</u>	<u>\$ 9,750,233</u>
All Other Governmental Funds						
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,000
Restricted	9,048,404	9,015,587	10,561,911	6,770,279	7,692,180	6,321,238
Committed	4,468,706	4,464,502	-	66,607	5,367,842	9,692,916
Assigned	-	-	-	-	26,199	525,863
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,373)</u>	<u>(36,684)</u>
Total All Other Governmental Funds	<u>\$ 13,517,110</u>	<u>\$ 13,480,089</u>	<u>\$ 10,561,911</u>	<u>\$ 6,836,886</u>	<u>\$ 13,066,848</u>	<u>\$ 16,518,333</u>

Source: The City's Accounting Records.

Note: During the fiscal year 2011, the City implemented GASB Statement No 54. Therefore, starting in the fiscal year ended June 30, 2011, governmental fund balances will be presented based on the GASB Statement No. 54 hierarchy.

CITY OF SEDONA, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year			
	2007	2008	2009	2010
Revenues				
Taxes	\$ 9,321,955	\$ 9,542,649	\$ 9,328,388	\$ 8,142,198
Licenses and Permits	192,882	164,807	212,366	207,092
Intergovernmental	5,115,368	5,302,778	5,463,364	6,127,774
Contributions and Fonations	5,000	1,424	1,114	1,990
Charges for Services	153,751	154,194	161,103	184,458
Fines and Forfeitures	324,562	368,785	268,848	269,104
Impact Fees	276,348	364,474	302,216	278,352
Special Assessments	197,125	203,172	163,266	-
Investment Earnings	1,037,999	1,021,475	735,012	533,139
Rents and Royalties	47,796	2,077	3,362	3,698
Other	45,244	133,662	235,581	506,745
Total Revenues	<u>16,718,030</u>	<u>17,259,497</u>	<u>16,874,620</u>	<u>16,254,550</u>
Expenditures				
Current:				
General Government	8,292,797	8,643,505	8,908,985	6,993,621
Public Safety	3,425,540	3,663,679	3,636,491	3,541,391
Public Works and Streets	5,783,445	2,915,421	5,588,218	4,300,673
Culture and Recreation	807,619	970,037	1,169,314	843,316
Economic development	-	-	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal	535,000	550,000	586,753	345,942
Interest and Fiscal Charges	209,044	262,216	689,685	570,707
Total Expenditures	<u>19,053,445</u>	<u>17,004,858</u>	<u>20,579,446</u>	<u>16,595,650</u>
Revenues Over (Under) Expenditures	(2,335,415)	254,639	(3,704,826)	(341,100)
Other Financing Sources (Uses)				
Proceeds of Refunding Debt Issuance	-	-	-	-
Proceeds of Long-Term Debt Issuance	-	8,810,604	114,032	-
Payment to Refunded Debt Escrow Agent	-	-	-	-
Sale of General Capital Assets	-	-	-	-
Issuance of Long-Term Debt	-	-	-	-
Payment to Escrow Agent	-	-	-	-
Transfers Out	(467,376)	(467,561)	(401,452)	(1,264,607)
Transfers In	467,376	600,874	881,308	1,669,463
Total Other Financing Sources (Uses)	<u>-</u>	<u>8,943,917</u>	<u>593,888</u>	<u>404,856</u>
Net Change in Fund Balance	<u>\$ (2,335,415)</u>	<u>\$ 9,198,556</u>	<u>\$ (3,110,938)</u>	<u>\$ 63,756</u>
Debt Service as a Percentage of Noncapital Expenditures	5.34%	6.05%	7.43%	6.18%

Fiscal Year

	2011	2012	2013	2014	2015 Restated	2016
\$	8,538,593	\$ 8,594,131	\$ 9,756,849	\$ 11,205,625	\$ 13,628,451	\$ 19,412,559
	179,555	276,000	334,756	466,937	468,722	496,517
	4,473,983	4,131,915	4,825,104	5,205,547	5,034,197	4,505,596
	6,452	39,342	51,945	-	23,711	230,296
	98,339	125,142	89,118	99,231	190,565	162,130
	200,129	202,465	154,786	134,164	172,694	147,984
	154,162	297,107	278,480	450,798	216,039	231,772
	-	-	-	-	-	-
	221,786	284,730	139,854	303,098	238,592	307,030
	-	-	-	-	-	-
	292,300	120,851	521,353	276,872	38,707	78,629
	14,165,299	14,071,683	16,152,245	18,142,272	20,011,678	25,572,513
	5,021,720	5,132,317	5,639,357	5,881,473	5,471,132	6,179,381
	2,947,190	2,550,703	2,723,035	3,609,678	3,770,380	4,198,335
	2,031,023	2,265,572	3,332,977	3,642,185	2,280,656	1,824,816
	1,654,380	1,914,570	1,803,515	389,420	2,193,308	1,769,992
	-	-	-	-	550,762	1,336,234
	1,577,185	1,286,046	4,486,413	4,337,561	3,546,030	5,237,935
	-	378,130	354,309	346,889	345,000	515,000
	562,465	547,193	538,964	561,020	418,606	245,667
	13,793,963	14,074,531	18,878,570	18,768,226	18,575,874	21,307,360
	371,336	(2,848)	(2,726,325)	(625,954)	1,435,804	4,265,153
	-	-	-	1,879,700	-	-
	-	-	-	-	-	-
	-	-	-	(1,845,000)	-	-
	-	-	-	-	22,863	11,806
	-	-	-	-	-	8,030,000
	-	-	-	-	-	(7,934,739)
	(316,125)	(838,373)	857,675	(1,136,498)	(7,955,237)	(11,928,810)
	316,125	838,373	(793,833)	1,220,124	8,043,472	7,431,260
	-	-	63,842	118,326	111,098	(4,390,483)
\$	371,336	\$ (2,848)	\$ (2,662,483)	\$ (507,628)	\$ 1,546,902	\$ (125,330)
	4.83%	7.80%	6.62%	7.20%	5.50%	5.02%

**CITY OF SEDONA, ARIZONA
GENERAL GOVERNMENT PRINCIPAL SALES TAX REMITTERS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)**

Tax Remitter	Fiscal Year 2016			Fiscal Year 2007		
	Tax Liability	Rank	Percentage of Total	Tax Liability	Rank	Percentage of Total
Hotels & Other Lodging	\$ 5,876,944	1	34.49%	\$ 3,871,275	1	26.50%
Retail Trade	4,051,430	2	23.77%	3,632,447	2	24.86%
Restaurants & Bars	2,165,811	3	12.71%	1,812,673	4	12.41%
All Other	1,265,886	4	7.43%	501,051	7	3.43%
Construction	1,245,147	5	7.31%	2,179,423	3	14.92%
Insurance & Real Estate	942,690	6	5.53%	974,352	5	6.67%
Trans/Comm/Utilities	650,644	7	3.82%	689,975	6	4.72%
Services	398,217	8	2.34%	423,789	8	2.90%
Manufacturing	280,222	9	1.64%	385,046	9	2.64%
Wholesale Trade	164,270	10	0.96%	139,891	10	0.96%
	<u>\$ 17,041,261</u>		<u>100.00%</u>	<u>\$ 14,609,922</u>		<u>100.00%</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
GENERAL GOVERNMENT TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(UNAUDITED)**

<u>Fiscal Year</u>	<u>Sales Taxes</u>	<u>Occupancy Taxes</u>	<u>Franchise Tax</u>	<u>Other Taxes (In Lieu)</u>	<u>Total</u>
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
2016	10,502,062	3,010,334	781,223	621,390	14,915,009

**CITY OF SEDONA, ARIZONA
SALES TAX COLLECTIONS BY CATEGORY
LAST TEN FISCAL YEARS
(UNAUDITED)**

Sales Category	Fiscal Year			
	2007	2008	2009	2010
Mining	\$ 64	\$ 44	\$ 17	\$ 125
Construction	2,179,423	2,196,607	2,358,558	1,809,571
Manufacturing	385,046	327,604	309,407	265,998
Transportation, Communication and Utilities	689,975	694,121	670,573	704,133
Wholesale Trade	139,891	130,121	135,271	121,420
Retail Trade	3,632,447	3,327,597	3,069,968	2,993,452
Restaurants and Bars	1,812,673	1,795,497	1,757,018	1,639,413
Finance, Insurance and Real Estate	974,352	896,313	861,924	853,836
Accommodations	3,871,275	3,835,570	3,600,663	2,937,039
Services	423,789	397,286	321,006	349,848
Public Administration	36,147	22,927	21,339	11,831
All Other Outlets	464,840	477,197	426,937	447,836
Total	<u>14,609,922</u>	<u>14,100,884</u>	<u>13,532,681</u>	<u>12,134,502</u>
Direct Sales Tax Rate	3.00%	3.00%	3.00%	3.00%
Transient Lodging Tax 3.5%				

Source: Arizona Department of Revenue and Revenue Discovery Systems.

Note: Fiscal Year 2012 amounts reflect receipts through June 2012.

Fiscal Year

2011	2012	2013	2014	2015	2016
\$ 62	\$ -	\$ -	\$ -	\$ -	\$ 251
1,196,484	845,718	799,034	1,106,248	1,043,214	1,245,147
183,658	15,124	-	-	-	280,222
691,194	610,278	566,849	621,539	551,710	650,644
70,613	27,402	10,290	-	-	164,270
4,177,664	4,238,541	3,941,680	4,375,792	4,359,761	4,051,430
1,771,269	1,822,094	1,769,999	2,197,587	1,959,886	2,165,811
800,883	770,388	747,856	928,205	630,449	942,690
3,207,107	3,583,876	3,142,085	1,980,589	4,317,072	5,876,944
509,518	569,619	503,248	613,061	561,985	398,217
6,370	24,763	-	-	-	4,201
284,872	12,972	-	-	491,935	1,261,434
<u>12,899,694</u>	<u>12,520,775</u>	<u>11,481,041</u>	<u>11,823,021</u>	<u>13,916,012</u>	<u>17,041,261</u>
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

**CITY OF SEDONA, ARIZONA
 DIRECT AND OVERLAPPING SALES TAX RATES
 JUNE 30, 2016
 (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>
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 %	5.60 %
2011	3.00 %	0.75 %	1.125 %	5.60 %
2012	3.00 %	0.75 %	1.125 %	5.60 %
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 %
2016	3.00 %	0.75 %	1.300 %	5.60 %

Source: Arizona Department of Revenue.

**CITY OF SEDONA, ARIZONA
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	Capital Appreciation Bond Interest			
2007	\$ 3,899,745	\$ -	\$ 500,000	\$ 52,595,203	\$ 969,290	\$ 3,651,337	\$ 61,615,575	14.82%	5,206
2008	12,421,059	-	260,000	58,695,624	848,148	4,178,769	76,403,600	18.47%	6,413
2009	12,121,768	107,279	-	55,425,528	726,967	4,734,113	73,115,655	17.81%	5,979
2010	11,817,478	86,337	-	52,005,412	605,806	5,318,833	69,833,866	18.71%	5,659
2011	11,498,188	64,328	-	48,430,295	-	5,934,491	65,927,302	18.79%	5,981
2012	11,163,896	41,198	-	45,060,343	-	6,582,715	62,848,152	17.89%	5,609
2013	11,135,500	16,889	-	41,889,499	-	7,265,246	60,307,134	16.65%	5,314
2014	10,684,842	-	-	37,333,514	-	7,983,887	56,002,243	8.80%	4,736
2015	10,339,062	-	-	32,929,325	-	8,740,542	52,008,929	11.17%	4,267
2016	10,509,700	-	-	28,072,186	-	9,537,228	48,119,114	9.24%	4,123

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

**CITY OF SEDONA, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2016
(UNAUDITED)**

Governmental Unit	Outstanding Debt (1)	Estimated Percentage Applicable (2)	Estimated Share of Overlapping Debt
Yavapai County	\$ 21,241,997	12.37%	\$ 2,627,635
Coconino County C.C.D.	5,990,000	16.97%	1,016,503
Yavapai County C.C.D.	39,394,670	12.37%	4,873,121
Sedona-Oak Creek Unified S.D. No. 9	50,195,000	60.28%	30,257,546
Sedona Fire District	2,155,017	60.14%	1,296,027
Total Overlapping Debt			<u>40,070,832</u>
City of Sedona	48,119,114	100.00%	<u>-</u>
Total Direct and Overlapping Debt			<u><u>\$ 40,070,832</u></u>

Arizona Report of Bonded Indebtedness, Arizona State Treasurer

- (1) Includes general obligation bonds outstanding. The City of Sedona does not have any general obligation bonds.
- (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
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

WIFA Loan ⁽³⁾						
Fiscal Year	Gross Revenues ⁽¹⁾	Less Operating Expenses ⁽²⁾	Net Available Revenue	Principal	Interest	Coverage
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
2016	-	-	-	-	-	N/A

Special Assessment Bonds ⁽⁴⁾					
Fiscal Year	Special Assessment	Principal	Interest	Total	Coverage
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
2016	-	-	-	-	N/A

Excise Tax Revenue Bonds					
Fiscal Year	Excise Tax Revenues	Principal	Interest	Total	Coverage
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	14,146,146	3,665,000	2,861,257	6,526,257	2.17
2011	14,410,369	3,835,000	2,696,830	6,531,830	2.21
2012	14,125,481	4,210,000	2,717,992	6,927,992	2.04
2013	15,029,208	4,210,000	2,279,329	6,489,329	2.32
2014	16,297,050	4,405,000	2,077,929	6,482,929	2.51
2015	18,360,901	4,485,000	1,498,946	5,983,946	3.07
2016	19,351,679	5,260,000	808,167	6,068,167	3.19

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, issuance costs and fiscal charges.
- (3) WIFA Loan closed as of 2010.
- (4) Special Assessment closed as of 2009

**CITY OF SEDONA, ARIZONA
DEBT LIMITATIONS AND COMPUTATION OF LEGAL DEBT MARGIN
LAST SIX FISCAL YEARS
(UNAUDITED)**

	Fiscal Year					
	2011	2012	2013	2014	2015	2016
Coconino County	N/A	N/A	N/A	\$ 110,290,043	\$ 121,388,325	\$ 125,045,612
Yavapai County	N/A	N/A	N/A	177,099,032	183,416,070	191,649,855
Total Assessed Valuation	<u>\$ 289,661,444</u>	<u>\$ 289,661,444</u>	<u>\$ 298,617,510</u>	<u>\$ 287,389,075</u>	<u>\$ 304,804,395</u>	<u>\$ 316,695,467</u>
<u>20% Limitation</u>						
Debt Limit Equal to 20% of Assessed Valuation	\$ 57,932,289	\$ 57,932,289	\$ 59,723,502	\$ 57,477,815	\$ 60,960,879	\$ 63,339,093
Total Net Debt Applicable to 20% Limit	-	-	-	-	-	-
Legal 20% Debt Margin	<u>\$ 57,932,289</u>	<u>\$ 57,932,289</u>	<u>\$ 59,723,502</u>	<u>\$ 57,477,815</u>	<u>\$ 60,960,879</u>	<u>\$ 63,339,093</u>
<u>6% Limitation</u>						
Debt Limit Equal to 6% of Assessed Valuation	\$ 17,379,687	\$ 17,379,687	\$ 17,917,051	\$ 17,243,345	\$ 18,288,264	\$ 19,001,728
Total Net Debt Applicable to 6% Limit	-	-	-	-	-	-
Legal 6% Debt Margin	<u>\$ 17,379,687</u>	<u>\$ 17,379,687</u>	<u>\$ 17,917,051</u>	<u>\$ 17,243,345</u>	<u>\$ 18,288,264</u>	<u>\$ 19,001,728</u>

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

Note 2: Information prior to 2011 was not available.

**CITY OF SEDONA, ARIZONA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	City of Sedona Unemployment Rate
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%
2016	10,388	520,781,604	50,133	58.0	1,097	3.60%

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

Note: Median age was not available for years 2007 and 2008

**CITY OF SEDONA, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2016 AND NINE YEARS PRIOR
(UNAUDITED)**

Employer	2016			2007		
	Employees (1)	Rank	Percentage of Total City Employment	Employees (1)	Rank	Percentage of Total City Employment
Enchantment Resorts (location outside of City)	565	1	11.63%	383	1	7.88%
L'Auberge de Sedona Resort	240	2	4.94%	180	3	3.71%
Hilton Resort & Spa (location outside of City)	197	3	4.06%	225	2	4.63%
Pink Jeep Tours	168	4	3.46%	100	6	2.06%
Sedona/Oak Creek School District	154	5	3.17%	180	3	3.71%
City of Sedona	112	6	2.30%	136	4	2.80%
Amara Resort	100	7	2.06%	-	-	0.00%
Hyatt-Pinion Point Resort	76	8	1.56%	-	-	0.00%
Orchard's Inn	75	9	1.54%	-	-	0.00%
Sedona Rouge Hotel & Spa	70	10	1.44%	110	5	2.26%
	<u>1,757</u>		<u>36.16%</u>	<u>1,314</u>		

Source: The Arizona Department of Commerce.

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

**CITY OF SEDONA, ARIZONA
 FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS
 (UNAUDITED)**

Function	Authorized Positions as of Fiscal Year Ended									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Management Services	25	25	25	18	17	18	19	20	23	21
Finance	5	5	5	5	6	5	7	7	7	7
Planning	5	5	5	6	6	6	6	6	6	9
Building	3	3	3	2	2	2	3	3	1	1
Other	1	1	1	1	1	5	5	5	2	3
Public Safety										
Officers	31	31	30	24	24	26	26	26	26	23
Civilians	8	8	10	8	10	10	10	11	7	12
Other Public Works										
Engineering	5	5	5	4	4	4	4	4	9	7
Other	11	11	11	14	14	13	13	13	9	15
Redevelopment	7	7	7	4	4	3	2	2	-	-
Parks and Recreation	6	6	7	3	2	2	2	3	2	3
Wastewater	11	11	11	11	11	10	10	10	10	11
Total	118	118	120	100	101	104	107	110	102	112

Source: City of Sedona, Arizona

**CITY OF SEDONA, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Years									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Government										
Building Permits Issued	573	553	537	593	463	472	476	500	518	617
Building Inspections Conducted	3,168	2,737	2,180	2,086	1,277	1,453	1,781	1,907	1,953	1,733
Police										
Physical Arrests	662	542	652	544	537	497	364	325	432	383
Parking Violations	87	86	40	195	149	195	587	191	317	737
Traffic Violations	2,296	4,589	3,772	3,310	2,617	2,268	2,340	1,145	3,827	3,553
Other Public Works										
Street Resurfacing (Miles)	2.0	4.3	3.5	-	2.4	3.0	3.8	2.2	2.6	2.4
Right of Way Permits Issued	-	202	148	157	187	161	204	190	210	194
Wastewater										
Average Daily Sewage Treatment (Millions of Gallons)	1.3	1.2	1.1	1.1	1.2	1.1	1.1	1.2	1.1	1.1

Source: City of Sedona, Arizona

**CITY OF SEDONA, ARIZONA
CAPITAL ASSET STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)**

Function	Fiscal Years									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	11	11	12	16	13	13	17	15	15	16
Other Public Works										
Streets (Miles)	154.5	154.5	154.5	154.4	154.4	154.4	106.0	106.0	106.2	106.2
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	8	8	8	8	136	136	147	147
Parks and Recreation										
Acreage	100.3	100.3	91.8 *	93.0	93.0	93.0	93.0	123.3	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	650	651	651	659	659	659	659	659	659	659
Wastewater										
Sanitary Sewers (Miles)	159.3	75.0	75.0	75.0	75	166	166	166	166	166
Treatment Capacity (Millions of Gallons)	2.2	2.0	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.