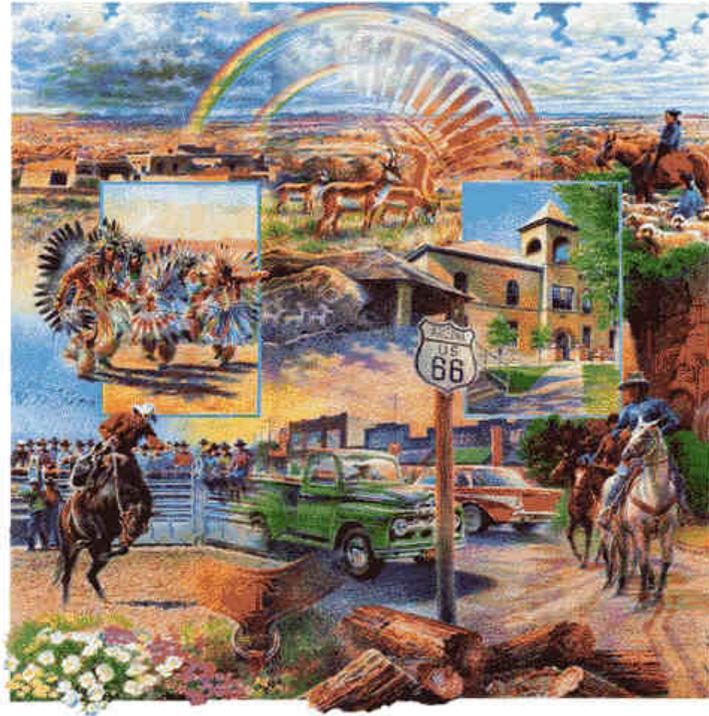


CITY OF HOLBROOK, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Holbrook, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund and the aggregate remaining fund information of the City of Holbrook, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, and each major

fund, and the aggregate remaining fund information of the City of Holbrook, Arizona, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

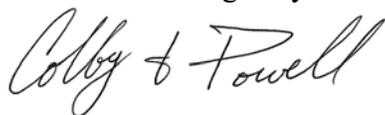
U.S. generally accepted accounting principles require that the management’s discussion and analysis (pgs 3 to 9), budgetary comparison schedules (pgs 51 to 53), Schedule of the City’s Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans (pg 55), Schedule of Changes in the City’s Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans (pg 56), Schedule of City Pension Contributions (pg 57), and Schedule of Agent OPEB Plans’ Funding Progress (pg 59) 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the City of Holbrook, Arizona’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Holbrook, Arizona’s internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. According, had we performed additional procedures, other matters may have come to our attention regarding the City’s noncompliance with the use of highway user revenue fund monies, insofar as they relate to accounting matters.



December 19, 2017

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

As management of the City of Holbrook (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total governmental fund balances of \$1,780,273, a \$96,993 increase.
- Total General Fund revenues exceeded total General Fund expenditures by \$421,417.
- Fair Market Value of Investments as of June 30, 2017 was \$264,844.
- Since November of 2009, The City has worked towards being debt free. The City currently has one debt remaining. The Treatment Plant Revenue Bond is scheduled to mature July 1, 2020.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the City's roads to accurately assess the overall health of the City.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, state revenue sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/business-type activities – The City charges a fee to customers to cover most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the basic financial statements.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$7.4 million as of June 30, 2017 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer, and sanitation operations in enterprise funds which are shown as business-type activities.

CITY OF HOLBROOK, ARIZONA
Condensed Statement of Net Position

| | Governmental activities | | Business-type activities | | Combined Total | |
|----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Current and other assets | \$ 1,941,849 | \$ 2,228,698 | \$ 715,579 | \$ 684,142 | \$ 2,657,428 | \$ 2,912,840 |
| Capital assets | 7,864,973 | 7,482,248 | 8,429,731 | 9,043,884 | 16,294,704 | 16,526,132 |
| Total assets | <u>9,806,822</u> | <u>9,710,946</u> | <u>9,145,310</u> | <u>9,728,026</u> | <u>18,952,132</u> | <u>19,438,972</u> |
| Deferred outflows of resources | <u>1,900,821</u> | <u>1,819,123</u> | <u>169,700</u> | <u>113,170</u> | <u>2,070,521</u> | <u>1,932,293</u> |
| Current liabilities | 403,068 | 714,634 | 1,815,279 | 1,868,623 | 2,218,347 | 2,583,257 |
| Non-current liabilities | 8,801,123 | 8,543,638 | 2,038,840 | 2,361,676 | 10,839,963 | 10,905,314 |
| Total liabilities | <u>9,204,191</u> | <u>9,258,272</u> | <u>3,854,119</u> | <u>4,230,299</u> | <u>13,058,310</u> | <u>13,488,571</u> |
| Deferred inflows of resources | <u>406,757</u> | <u>266,986</u> | <u>115,052</u> | <u>86,162</u> | <u>521,809</u> | <u>353,148</u> |
| Net position: | | | | | | |
| Net investment in capital assets | 7,864,973 | 7,482,248 | 6,890,327 | 7,145,238 | 14,755,300 | 14,627,486 |
| Restricted | 121,488 | - | - | - | 121,488 | - |
| Unrestricted | (5,889,766) | (5,477,437) | (1,544,488) | (1,620,503) | (7,434,254) | (7,097,940) |
| Total net position | <u>\$ 2,096,695</u> | <u>\$ 2,004,811</u> | <u>\$ 5,345,839</u> | <u>\$ 5,524,735</u> | <u>\$ 7,442,534</u> | <u>\$ 7,529,546</u> |

Governmental Activities

The cost of all governmental activities this year was \$5,783,822. As shown on the Statement of Activities, \$293,498 of this cost was paid for by those who directly benefited from the programs; \$1,431,312 was subsidized by grants and other contributions received for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,724,810. General taxes, state revenue sharing and investment earnings totaled \$4,556,944.

The City's programs include: general government, public safety, public works and streets, parks and recreation, and welfare. Each programs net cost (total cost less revenues generated by the activities) is presented. The net cost shows the extent to which the City's general taxes support each of the City's programs.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

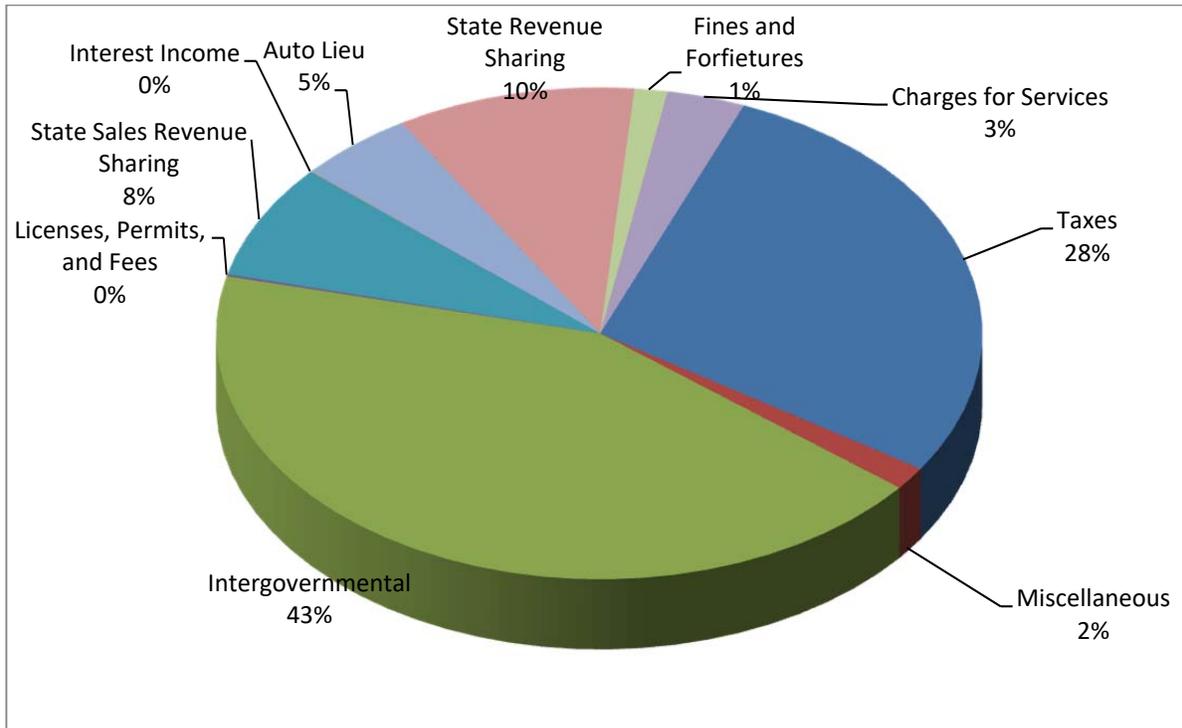
CITY OF HOLBROOK, ARIZONA
Condensed Statement of Activities

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|---------------------|
| | <u>6/30/17</u> | <u>6/30/16</u> | <u>6/30/17</u> | <u>6/30/16</u> | <u>6/30/17</u> | <u>6/30/16</u> |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Fees, fines, and charges for services | \$ 293,499 | \$ 299,168 | \$ 1,841,447 | \$ 1,747,602 | \$ 2,134,946 | \$ 2,046,770 |
| Operating grants and contributions | 845,783 | 725,906 | - | - | 845,783 | 725,906 |
| Capital grants and contributions | 585,529 | 133,065 | - | - | 585,529 | 133,065 |
| General revenues | | | | | | |
| Local taxes | 3,089,809 | 3,362,653 | - | - | 3,089,809 | 3,362,653 |
| State shared revenues | 1,373,589 | 1,373,260 | - | - | 1,373,589 | 1,373,260 |
| Investment earnings | 1,260 | 12,443 | - | - | 1,260 | 12,443 |
| Miscellaneous | 92,286 | 32,584 | - | - | 92,286 | 32,584 |
| Gain (loss) on disposal of capital assets | - | 1,000 | - | 53,559 | - | 54,559 |
| Total revenues | <u>6,281,755</u> | <u>5,940,079</u> | <u>1,841,447</u> | <u>1,801,161</u> | <u>8,123,202</u> | <u>7,741,240</u> |
| Expenses | | | | | | |
| General government | 869,736 | 879,020 | - | - | 869,736 | 879,020 |
| Public safety | 2,702,038 | 2,758,920 | - | - | 2,702,038 | 2,758,920 |
| Public works and streets | 983,648 | 1,416,397 | - | - | 983,648 | 1,416,397 |
| Parks and recreation | 1,150,297 | 1,363,572 | - | - | 1,150,297 | 1,363,572 |
| Welfare | 78,103 | 139,799 | - | - | 78,103 | 139,799 |
| Utilities | - | - | 2,426,392 | 2,537,821 | 2,426,392 | 2,537,821 |
| Total expenses | <u>5,783,822</u> | <u>6,557,708</u> | <u>2,426,392</u> | <u>2,537,821</u> | <u>8,210,214</u> | <u>9,095,529</u> |
| Change in net position before transfers | 497,933 | (617,629) | (584,945) | (736,660) | (87,012) | (1,354,289) |
| Transfers | (406,049) | (410,292) | 406,049 | 410,292 | - | - |
| Change in net position | 91,884 | (1,027,921) | (178,896) | (326,368) | (87,012) | (1,354,289) |
| Net position, beginning of year | 2,004,811 | 3,032,732 | 5,524,735 | 5,851,103 | 7,529,546 | 8,883,835 |
| Net position, end of year | <u>\$ 2,096,695</u> | <u>\$ 2,004,811</u> | <u>\$ 5,345,839</u> | <u>\$ 5,524,735</u> | <u>\$ 7,442,534</u> | <u>\$ 7,529,546</u> |

**City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017**

The following shows revenues by source for all governmental activities:

Revenues by Source – Governmental Activities



Business-type Activities

Net position of the business-type activities at June 30, 2017, as reflected in the Statement of Net Position was \$5,345,839. The cost of providing all business-type activities this year was \$2,426,392. As shown in the Statement of Activities, the amounts paid by users of the system were \$1,841,447. Transfers in from governmental activities were \$406,049. Net position decreased by \$178,896.

Financial Analysis of the Government's Funds

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

Governmental funds: The focus of the City of Holbrook's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Holbrook'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.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

As of the end of the current fiscal year, the City of Holbrook's governmental funds reported combined ending fund balances of \$1,780,273, an increase of \$96,993 in comparison with the prior year. \$387,358 of the ending fund balance constitutes unassigned fund balance, which is available for new spending at the government's discretion. \$1,271,427 of the ending fund balance is currently unspendable because they are not in spendable form such as fund balance associated with inventories, and long-term loans receivable. \$121,488 of the fund balance is restricted or assigned meaning it has been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City of Holbrook. At the end of the current fiscal year, unassigned fund balance in the General Fund was \$387,358. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance and unassigned fund balance represents 37.1% and 8.7% respectively of total General Fund expenditures excluding transfers. During the year, the City of Holbrook's General Fund balance increased by \$15,368.

The Highway User Revenue Fund has a total fund balance of \$120,281. The net increase in the fund balance during the current year was \$127,449. A key factor in this fund balance is management's dedication to repair/replace as many roads as possible.

Proprietary funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements as the business-type activities, but in more detail. Total net position of the Utility Fund was \$5,345,839 consisting of \$6,890,327 net investment in capital assets and \$(1,544,488) in unrestricted net position.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the general fund and all major special revenue funds. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

The General Fund's revenues of \$4,887,606 were less than budgeted revenues of \$5,941,956 by \$(1,054,350) and the General Fund's expenditures of \$4,466,189 were less than budgeted expenditures of \$5,477,406 by \$1,011,217.

HURF Revenues of \$709,038 were more than budgeted revenues of \$684,742 by \$24,296 and expenditures of \$581,589 were less than budgeted expenditures of \$684,742 by \$103,153. Management has made an improved effort in repairing infrastructure and has tried not to leave a fund balance. However no transfers were made during the year because of cash flow and grant reimbursement timing.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets of the City are those assets that are used in performance of City functions including infrastructure assets. Capital assets include equipment, buildings, land, system improvements, park facilities and roads. At the end of fiscal year 2017, net capital assets of the government activities totaled \$7,864,973 and the net capital assets of the business-type activities totaled \$8,429,731. Combined capital asset additions for fiscal year 2017 totaled \$928,887. Depreciation on capital assets for both government activities and business-type activities is recognized in the government-wide financial statements.

Debt

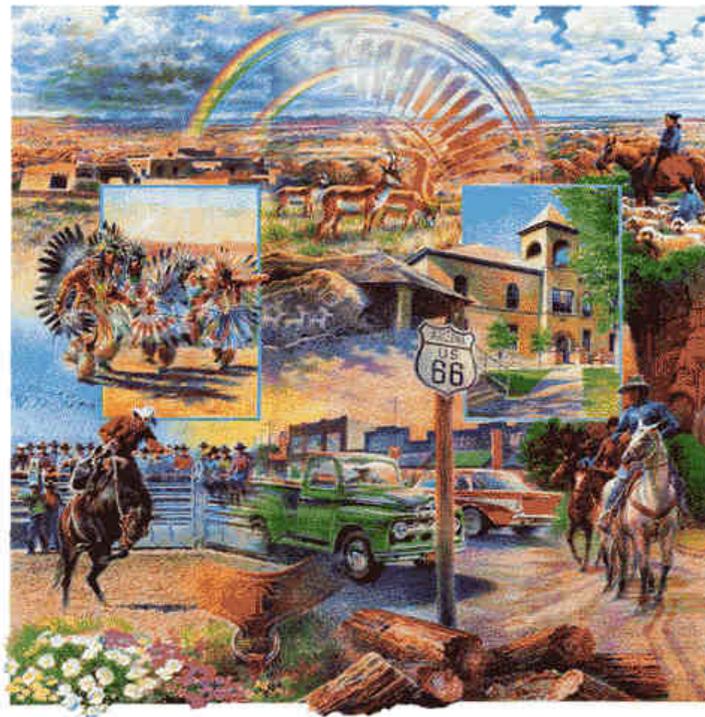
At year-end, the City had \$8,966,087 recorded in the governmental activities of which \$8,724,052 is related to a net pension liability. The City had \$2,438,415 in the business-type activities of which \$1,516,000 is related to bond indebtedness and \$873,648 is related to a net pension liability. The governmental activities debt is mainly comprised of net pension liability which management has little control over. During the current fiscal year, the City's total debt decreased by \$69,643.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's budget for fiscal year 2017/2018, the City Council and management were cautious as to the growth of revenues and expenditures. Overall, the General Fund operating expenditures were budgeted as a 4.1% decrease from the level of fiscal year 2016/2017.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact, City of Holbrook, Post Office Box 970, Holbrook, Arizona 86025.



FINANCIAL SECTION

City of Holbrook, Arizona
Statement of Net Position
June 30, 2017

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 375,077 | \$ 50 | \$ 375,127 |
| Cash and cash equivalents, restricted | - | 466,463 | 466,463 |
| Taxes receivable | 8,786 | - | 8,786 |
| Due from other governments | 303,991 | - | 303,991 |
| Receivables, net | 66 | 203,060 | 203,126 |
| Inventory | 25,458 | 46,006 | 71,464 |
| Interactivity balances | 1,228,471 | (1,228,471) | - |
| Capital assets, not being depreciated | 914,945 | 282,822 | 1,197,767 |
| Capital assets, being depreciated, net | 6,950,028 | 8,146,909 | 15,096,937 |
| Total assets | 9,806,822 | 7,916,839 | 17,723,661 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows related to pensions | 1,900,821 | 169,700 | 2,070,521 |
| LIABILITIES | | | |
| Accounts payable | 89,750 | 74,760 | 164,510 |
| Accrued expenses | 71,826 | 9,010 | 80,836 |
| Interest payable | - | 23,404 | 23,404 |
| Customer deposits | - | 80,059 | 80,059 |
| PSPRS Parker liability | 76,528 | | 76,528 |
| Noncurrent liabilities | | | |
| Due within 1 year | 164,964 | 399,575 | 564,539 |
| Due in more than 1 year | 8,801,123 | 2,038,840 | 10,839,963 |
| Total liabilities | 9,204,191 | 2,625,648 | 11,829,839 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows related to pensions | 406,757 | 115,052 | 521,809 |
| NET POSITION | | | |
| Net investment in capital assets | 7,864,973 | 6,890,327 | 14,755,300 |
| Restricted for: | | | |
| Highways and streets | 121,488 | - | 121,488 |
| Unrestricted (deficit) | (5,889,766) | (1,544,488) | (7,434,254) |
| Total net position | \$ 2,096,695 | \$ 5,345,839 | \$ 7,442,534 |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Activities
Year Ended June 30, 2017

| Functions / Programs | Expenses | Program Revenue | | | Net (Expenses) Revenue and Changes in Net Position | | |
|---------------------------------------|---------------------|----------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total |
| | | | | | Governmental Activities | Business-type Activities | |
| Primary government: | | | | | | | |
| Governmental activities | | | | | | | |
| General government | \$ 869,736 | \$ 7,828 | \$ - | \$ - | \$ (861,908) | \$ - | \$ (861,908) |
| Public safety | 2,702,038 | 91,940 | 99,582 | - | (2,510,516) | - | (2,510,516) |
| Public works and streets | 983,648 | 58,585 | 746,201 | 585,529 | 406,667 | - | 406,667 |
| Parks and recreation | 1,150,297 | 135,146 | - | - | (1,015,151) | - | (1,015,151) |
| Welfare | 78,103 | - | - | - | (78,103) | - | (78,103) |
| Total governmental activities | 5,783,822 | 293,499 | 845,783 | 585,529 | (4,059,011) | - | (4,059,011) |
| Business-type activities | | | | | | | |
| Utilities | 2,426,392 | 1,841,447 | - | - | - | (584,945) | (584,945) |
| Total business-type activities | 2,426,392 | 1,841,447 | - | - | - | (584,945) | (584,945) |
| Total primary government | \$ 8,210,214 | \$ 2,134,946 | \$ 845,783 | \$ 585,529 | (4,059,011) | (584,945) | (4,643,956) |
| General revenue: | | | | | | | |
| Taxes | | | | | | | |
| Sales taxes | | | | | 2,966,130 | - | 2,966,130 |
| Property taxes | | | | | 668 | - | 668 |
| Franchise taxes | | | | | 123,011 | - | 123,011 |
| State sales tax revenue sharing | | | | | 459,819 | - | 459,819 |
| Auto lieu tax revenue sharing | | | | | 299,732 | - | 299,732 |
| State revenue sharing | | | | | 614,038 | - | 614,038 |
| Interest income | | | | | 1,260 | - | 1,260 |
| Miscellaneous | | | | | 92,286 | - | 92,286 |
| Transfers: | | | | | (406,049) | 406,049 | - |
| Total general revenues & transfers | | | | | <u>4,150,895</u> | <u>406,049</u> | <u>4,556,944</u> |
| Change in net position | | | | | 91,884 | (178,896) | (87,012) |
| Net position, beginning of year | | | | | 2,004,811 | 5,524,735 | 7,529,546 |
| Net position, end of year | | | | | <u>\$ 2,096,695</u> | <u>\$ 5,345,839</u> | <u>\$ 7,442,534</u> |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Balance Sheet
Governmental Funds
June 30, 2017

| | General Fund | HURF Fund | Grants Fund | Total Governmental Funds |
|--|---------------------|-------------------|------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 306,046 | \$ 69,031 | \$ - | \$ 375,077 |
| Taxes receivable | 8,786 | - | - | 8,786 |
| Due from other governments | 220,787 | 63,545 | 19,659 | 303,991 |
| Accounts receivable, net | 66 | - | - | 66 |
| Inventory | 25,458 | - | - | 25,458 |
| Due from other funds | 1,245,969 | - | - | 1,245,969 |
| Total assets | 1,807,112 | 132,576 | 19,659 | 1,959,347 |
| LIABILITIES | | | | |
| Accounts payable | 80,872 | 8,878 | - | 89,750 |
| Accrued expenses | 67,455 | 3,417 | 954 | 71,826 |
| Due to other funds | - | - | 17,498 | 17,498 |
| Total liabilities | 148,327 | 12,295 | 18,452 | 179,074 |
| FUND BALANCES | | | | |
| Unspendable | 1,271,427 | - | - | 1,271,427 |
| Restricted for: | | | | |
| Highways and streets | - | 120,281 | 1,207 | 121,488 |
| Unassigned | 387,358 | - | - | 387,358 |
| Total fund balances | 1,658,785 | 120,281 | 1,207 | 1,780,273 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 1,807,112 | \$ 132,576 | \$ 19,659 | \$ 1,959,347 |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

| | | |
|--|--------------------|----------------------------|
| Fund balances--total governmental funds | | \$ 1,780,273 |
| <p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p> | | |
| Capital assets | 16,974,016 | |
| Less: accumulated depreciation | <u>(9,109,043)</u> | 7,864,973 |
| <p>Long-term liabilities, such as net pension liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.</p> | | |
| PSPRS Parker liability | (76,528) | |
| Manager contract | (22,083) | |
| Compensated absences | (219,952) | |
| Net pension liability | <u>(8,724,052)</u> | (9,042,615) |
| <p>Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.</p> | | |
| Deferred outflows relating to pensions | 1,900,821 | |
| Deferred inflows relating to pensions | <u>(406,757)</u> | 1,494,064 |
| Net position of governmental activities | | <u><u>\$ 2,096,695</u></u> |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

| | General Fund | HURF Fund | Grants Fund | Total Governmental Fund |
|--|---------------------|-------------------|-----------------|-------------------------------|
| Revenues | | | | |
| Taxes | \$ 3,089,809 | \$ - | \$ - | \$ 3,089,809 |
| Intergovernmental | 1,423,624 | 696,167 | 497,603 | 2,617,394 |
| Charges for services | 200,970 | - | - | 200,970 |
| Other revenue | 79,415 | 12,871 | - | 92,286 |
| Fines and forfeitures | 84,700 | - | - | 84,700 |
| Licenses, permits and fees | 7,828 | - | - | 7,828 |
| Interest | 1,260 | - | - | 1,260 |
| Total revenues | <u>4,887,606</u> | <u>709,038</u> | <u>497,603</u> | <u>6,094,247</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 790,280 | - | - | 790,280 |
| Public safety | 2,265,463 | - | 1,777 | 2,267,240 |
| Public works and streets | 280,504 | 409,051 | - | 689,555 |
| Parks and recreation | 1,043,356 | - | 10,882 | 1,054,238 |
| Welfare | 76,962 | - | - | 76,962 |
| Capital outlay | 9,624 | 172,538 | 530,768 | 712,930 |
| Total expenditures | <u>4,466,189</u> | <u>581,589</u> | <u>543,427</u> | <u>5,591,205</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>421,417</u> | <u>127,449</u> | <u>(45,824)</u> | <u>503,042</u> |
| Other financing sources (uses) | | | | |
| Transfers | <u>(406,049)</u> | <u>-</u> | <u>-</u> | <u>(406,049)</u> |
| Net change in fund balances | 15,368 | 127,449 | (45,824) | 96,993 |
| Fund balances, beginning of year | <u>1,643,417</u> | <u>(7,168)</u> | <u>47,031</u> | <u>1,683,280</u> |
| Fund balances, end of year | <u>\$ 1,658,785</u> | <u>\$ 120,281</u> | <u>\$ 1,207</u> | <u>\$ 1,780,273</u> |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2017

| | | |
|---|------------------|-------------------------|
| Net change in fund balances--total governmental funds | | \$ 96,993 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>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.</p> | | |
| Capital outlay | 712,930 | |
| Depreciation expense | <u>(517,713)</u> | |
| | | 195,217 |
| <p>The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government wide statements.</p> | | |
| | | 187,508 |
| <p>City pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities</p> | | |
| City pension contributions | 605,373 | |
| Pension expense | <u>(924,436)</u> | |
| | | (319,063) |
| <p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.</p> | | |
| PSPRS-Parker lawsuit liability | (76,528) | |
| Decrease in compensated absences | 5,669 | |
| Decrease in manager contract liability | <u>2,088</u> | |
| | | (68,771) |
| Change in net position of governmental activities | | <u><u>\$ 91,884</u></u> |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2017

| | Business-type Activities--Enterprise Funds | |
|---|--|----------------------------------|
| | Utility Fund June 30, 2017 | Utility Fund June 30, 2016 |
| | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 50 | \$ 50 |
| Cash and cash equivalents, restricted | 466,463 | 458,631 |
| Accounts receivable, net | 203,060 | 179,455 |
| Inventory | 46,006 | 46,006 |
| Total current assets | 715,579 | 684,142 |
| Noncurrent assets | | |
| Capital assets, net of accumulated depreciation, where applicable | 8,429,731 | 9,043,884 |
| Total assets | 9,145,310 | 9,728,026 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred outflows related to pensions | 169,700 | 113,170 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 74,760 | 58,424 |
| Accrued expenses | 9,010 | 18,668 |
| Accrued interest payable | 23,404 | 27,646 |
| Current portion of long-term debt | 399,575 | 399,615 |
| Customer deposits | 80,059 | 75,985 |
| Total current liabilities | 586,808 | 580,338 |
| Noncurrent liabilities | | |
| Due to other funds | 1,228,471 | 1,288,285 |
| Compensated absences | 12,192 | 14,872 |
| Notes payable | 1,153,000 | 1,516,000 |
| Net pension liability | 873,648 | 830,804 |
| Total noncurrent liabilities | 3,267,311 | 3,649,961 |
| Total liabilities | 3,854,119 | 4,230,299 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred inflows related to pensions | 115,052 | 86,162 |
| NET POSITION | | |
| Net investment in capital assets | 6,890,327 | 7,145,238 |
| Unrestricted (deficit) | (1,544,488) | (1,620,503) |
| Total net position | \$ 5,345,839 | \$ 5,524,735 |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Years Ended June 30, 2017

| | <u>Business-type Activities--Enterprise Funds</u> | |
|---|---|----------------------|
| | Utility Fund | Utility Fund |
| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
| Operating revenues | | |
| Charges for services | \$ 1,803,902 | \$ 1,688,097 |
| Miscellaneous | 37,545 | 59,505 |
| Total operating revenues | <u>1,841,447</u> | <u>1,747,602</u> |
| Operating expenses | | |
| Personnel | 673,101 | 725,702 |
| Service, supplies and other | 1,063,883 | 1,082,285 |
| Depreciation | 642,601 | 674,542 |
| Total operating expenses | <u>2,379,585</u> | <u>2,482,529</u> |
| Operating income (loss) | <u>(538,138)</u> | <u>(734,927)</u> |
| Nonoperating revenues (expenses) | | |
| Gain on sale of assets | - | 53,559 |
| Interest expense | (46,807) | (55,292) |
| Total nonoperating revenues (expenses) | <u>(46,807)</u> | <u>(1,733)</u> |
| Income (loss) before contributions, gains, losses, and transfers | (584,945) | (736,660) |
| Transfers in | 406,049 | 410,292 |
| Increase (decrease) in net position | (178,896) | (326,368) |
| Total net position, beginning of year | 5,524,735 | 5,851,103 |
| Total net position, end of year | <u>\$ 5,345,839</u> | <u>\$ 5,524,735</u> |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2017

| | Business-type Activities--Enterprise Funds | |
|---|--|----------------------------------|
| | Utility Fund June 30, 2017 | Utility Fund June 30, 2016 |
| | Cash flows from operating activities: | |
| Receipts from customers | \$ 1,821,916 | \$ 1,727,068 |
| Payments to suppliers and providers of goods and services | (1,032,343) | (1,121,401) |
| Payments to employees | (693,479) | (745,354) |
| Net cash provided by (used for) operating activities | 96,094 | (139,687) |
| Cash flows from noncapital financing activities: | | |
| Advances (Repayments) to/from other funds | (59,813) | 95,136 |
| Net transfers (to) from other funds | 406,049 | 410,292 |
| Net cash provided by (used for) noncapital financing activities | 346,236 | 505,428 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from sale of assets | - | 53,559 |
| Purchase of capital assets | (28,449) | (5,732) |
| Principal paid on notes payable | (355,000) | (347,000) |
| Interest paid | (51,049) | (58,901) |
| Net cash provided by (used for) capital and related financing activities | (434,498) | (358,074) |
| Net increase (decrease) in cash and cash equivalents | 7,832 | 7,667 |
| Cash and cash equivalents, beginning of year | 458,681 | 451,014 |
| Cash and cash equivalents, end of year | \$ 466,513 | \$ 458,681 |
| Cash and cash equivalents | \$ 50 | \$ 50 |
| Cash and cash equivalents, restricted | 466,463 | 458,631 |
| Cash and cash equivalents, end of year | \$ 466,513 | \$ 458,681 |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2017
(Continued)

| | Business-type Activities--Enterprise Funds | |
|---|---|----------------------------------|
| | Utility Fund June 30, 2017 | Utility Fund June 30, 2016 |
| | Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (538,138) | \$ (734,927) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation | 642,601 | 674,542 |
| Pension expense | 68,961 | 65,986 |
| Employer pension contributions | (53,757) | (86,010) |
| (Increase) decrease in: | | |
| Accounts receivable | (23,605) | (23,810) |
| Increase (decrease) in: | | |
| Accounts payable | 16,336 | (19,092) |
| Accrued expenses | (9,658) | (3,461) |
| Customer deposits | 4,074 | 3,276 |
| Compensated absences payable | (10,720) | (16,191) |
| Net cash provided by (used for) operating activities | \$ 96,094 | \$ (139,687) |

See accompanying notes to financial statements.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's accounting policies of the City of Holbrook, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

The City is a general purpose local government that is governed by a separately elected city council. The accompanying financial statements present the activities of the City (the primary government). The City has no component units.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the City as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

Government-wide statements – provide information about the primary government (the City). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government. They also distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements – provide information about the City’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. For the year ended June 30, 2017 the City has elected to report all of their funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be nonoperating expenses.

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 general government, except those required to be accounted for in another fund.

The ***HURF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund (HURF) which is legally restricted to expenditures for specified purposes, namely road construction and maintenance.

The ***Grants Fund*** accounts for federal and state grant programs.

The City reports the following major enterprise funds:

The ***Utility Fund*** accounts for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the City Council is that the costs (expenses, including depreciation) of providing water, sewer, and trash collection to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the City Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. The City applies grant resources to such programs before using general revenues.

D. Cash and Investments

For the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the City. The amount recorded as an allowance for uncollectible receivables at June 30, 2017, for the Utility Fund was \$149,568.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Property Tax Calendar

Property taxes are billed and collected through Navajo City. The City levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the City also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property assessed attaches on the first day of January preceding assessment and levy.

G. Inventories

Inventories of the proprietary fund are recorded as assets when purchased and expensed when consumed. These inventories are state at cost using the first-in, first-out method.

H. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land | \$ 5,000 | n/a | n/a |
| Infrastructure | 5,000 | Straight-line | 25-50 |
| Buildings | 5,000 | Straight-line | 25-50 |
| Utility systems | 5,000 | Straight-line | 25-50 |
| Land Improvements | 5,000 | Straight-line | 15-20 |
| Equipment | 5,000 | Straight-line | 5-15 |
| Vehicles | 5,000 | Straight-line | 5-10 |
| Furniture and fixtures | 5,000 | Straight-line | 5-15 |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

J. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees can carry forward a maximum of 1,040 sick leave hours. After the maximum limit is reached, employees continue to accrue sick leave hours. In December of each year, employees are compensated for 33% of all unused sick leave hours in excess of the maximum (1,040 hours) over and above the 40 hour buy-back provision. Employees who were hired prior to August 13, 2009 are considered grandfathered and are paid for one third of the accumulated balance upon retirement. Accordingly, this portion of the sick leave benefits is accrued as a liability in the financial statements.

K. Deferred Outflows/Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

L. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. 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, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, 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.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the City Council has approved, 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.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed. The City Council has authorized the City manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the City's policy to use (the City will use) restricted fund balance first. It is the City's policy to use (the City will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

M. Impact of Recently Issued Accounting Principles

In June 2015, the GASB issued Statement 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*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City implemented this standard during this fiscal period.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The City implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the firstreporting period in which the measurement date of the pension liability is on or after June 15, 2017.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

N. Pensions

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the City to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the City Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investor's service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The City's investment policy states that the City will conform with Arizona Revised Statutes. The City does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Restricted cash – Restricted cash in the Utility Fund consists of \$80,059 reserved for refundable customer deposits and \$386,404 reserved for debt service.

Deposits – At June 30, 2017, the carrying amount of the City’s total nonpooled cash in bank was \$576,346, and the bank balance was \$721,202. The entire bank balance was covered by federal depository insurance or pledged collateral held by the City’s agent not in the City’s name.

Investments – At June 30, 2017, the investments consisted of the City’s investment in the State Treasurer’s investment pool. The reported amount of \$264,844 approximates fair value. The investment rating of the State treasurer’s investment pool is “unrated”.

Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the City held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

| | |
|----------------------------------|---------|
| Cash, deposits, and investments: | |
| Cash on hand | \$ 400 |
| Amount of deposits | 576,346 |
| Amount of investments | 264,844 |
| Total | 841,590 |

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due at June 30, 2017 from other governments in the Governmental Funds consisted of the following:

| Description | General Fund | HURF Fund | Grants Fund | Total |
|-------------------------------------|--------------|-----------|-------------|------------|
| <u>State of Arizona:</u> | | | | |
| City sales tax | \$ 168,713 | - | - | \$ 168,713 |
| Highway user revenue | - | 63,545 | - | 63,545 |
| State sales tax | 39,863 | - | - | 39,863 |
| Grants | - | - | 19,659 | 19,659 |
| Vehicle license tax | 12,172 | - | - | 12,172 |
| <u>Navajo County - Property tax</u> | 39 | - | - | 39 |
| | \$ 220,787 | \$ 63,545 | \$ 19,659 | \$ 303,991 |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

| | <u>Governmental activities</u> | | | Balance June 30, 2017 |
|---|--|---------------------|-------------|--------------------------|
| | Balance July 1, 2016 | Increases | Decreases | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 914,945 | - | - | \$ 914,945 |
| Capital assets being depreciated: | | | | |
| Buildings | 5,361,486 | 419,303 | - | 5,780,789 |
| Furniture, equipment and vehicles | 3,744,824 | 121,089 | - | 3,865,913 |
| Infrastructure - roads | 4,998,803 | 360,046 | - | 5,358,849 |
| Runway and taxiway | 937,154 | - | - | 937,154 |
| Improvements - other | 116,366 | - | - | 116,366 |
| Total | 15,158,633 | 900,438 | - | 16,059,071 |
| Less accumulated depreciation for: | | | | |
| Buildings | (3,229,700) | (141,940) | - | (3,371,640) |
| Furniture, equipment and vehicles | (3,134,227) | (160,126) | - | (3,294,353) |
| Infrastructure - roads | (1,413,534) | (199,624) | - | (1,613,158) |
| Runway and taxiway | (781,717) | (10,220) | - | (791,937) |
| Improvements - other | (32,152) | (5,803) | - | (37,955) |
| Total | (8,591,330) | (517,713) | - | (9,109,043) |
| Total capital assets being depreciated, net | 6,567,303 | 382,725 | - | 6,950,028 |
| Governmental activities capital assets, net | \$ 7,482,248 | \$ 382,725 | \$ - | \$ 7,864,973 |
| | | | | |
| | <u>Business-type activities</u> | | | |
| | Balance July 1, 2016 | Increases | Decreases | Balance June 30, 2017 |
| Capital assets not being depreciated: | | | | |
| Land and water rights | \$ 282,822 | - | - | \$ 282,822 |
| Capital assets being depreciated: | | | | |
| Utility systems | 30,985,951 | - | - | 30,985,951 |
| Furniture, equipment and vehicles | 1,600,004 | 28,449 | - | 1,628,453 |
| Total | 32,585,955 | 28,449 | - | 32,614,404 |
| Less accumulated depreciation for: | | | | |
| Utility systems | (22,477,413) | (577,985) | - | (23,055,398) |
| Furniture, equipment and vehicles | (1,347,480) | (64,616) | - | (1,412,096) |
| Total | (23,824,893) | (642,601) | - | (24,467,494) |
| Total capital assets being depreciated, net | 8,761,062 | (614,153) | - | 8,146,909 |
| Business-type activities capital assets, net | \$ 9,043,884 | \$ (614,153) | \$ - | \$ 8,429,731 |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

| | |
|--|------------------------------|
| Governmental activities: | |
| General government | \$ 72,377 |
| Public safety | 74,148 |
| Public works and streets | 285,581 |
| Parks and recreation | <u>85,606</u> |
| Total governmental activities depreciation expense | <u><u>\$ 517,713</u></u> |
| Business-type activities: | |
| Utility | <u><u>\$ 642,601</u></u> |

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2017.

| | Balance July 1, 2016 | Additions | Reductions | Balance June 30, 2017 | Due within 1 year |
|---|----------------------------|--------------------------|----------------------------|----------------------------|--------------------------|
| Governmental activities: | | | | | |
| Compensated absences | \$ 225,621 | \$ - | \$ (5,669) | \$ 219,952 | \$ 164,964 |
| Manager contract liability | 24,171 | - | (2,088) | 22,083 | - |
| Net pension liability | <u>8,463,062</u> | <u>260,990</u> | <u>-</u> | <u>8,724,052</u> | <u>-</u> |
| Governmental activities long-term liabilities | <u><u>\$ 8,712,854</u></u> | <u><u>\$ 260,990</u></u> | <u><u>\$ (7,757)</u></u> | <u><u>\$ 8,966,087</u></u> | <u><u>\$ 164,964</u></u> |
| Business-type activities: | | | | | |
| Bonds payable | \$ 1,871,000 | \$ - | \$ (355,000) | \$ 1,516,000 | \$ 363,000 |
| Compensated absences | 59,487 | - | (10,720) | 48,767 | 36,575 |
| Net pension liability | <u>830,804</u> | <u>42,844</u> | <u>-</u> | <u>873,648</u> | <u>-</u> |
| Business-type activities long-term liabilities | <u><u>\$ 2,761,291</u></u> | <u><u>\$ 42,844</u></u> | <u><u>\$ (365,720)</u></u> | <u><u>\$ 2,438,415</u></u> | <u><u>\$ 399,575</u></u> |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 5 – LONG-TERM LIABILITIES – Continued

Bonds payable

The following is a listing of bonds payable as of June 30, 2017:

| | | |
|---|--|----------------------------|
| Revenue bonds payable, issued March 28, 2012, bearing interest at 1.30 to 3.49 percent annually, due in semi-annual interest installments and annual principal installments, maturing July 1, 2020. | \$ | 1,516,000 |
| | Less current portion | <u>(363,000)</u> |
| | Total notes payable net of current portion | <u><u>\$ 1,153,000</u></u> |

The debt service requirements to maturity are as follows:

| Year Ending June 30 | Bonds Payable | |
|---------------------------|----------------------------|-------------------------|
| | Principal | Interest |
| 2018 | \$ 363,000 | \$ 37,151 |
| 2019 | 373,000 | 26,185 |
| 2020 | 384,000 | 13,820 |
| 2021 | <u>396,000</u> | <u>-</u> |
| Total | <u><u>\$ 1,516,000</u></u> | <u><u>\$ 77,156</u></u> |

Manager contract liability – During the year ending June 30, 2013, the City entered into a new contract with the City Manager. As part of the contract, for each month from November 18, 2012 that the Manager remains employed as City Manager, the City shall allow the Manager to maintain the City’s health benefits for that same number of months after the Manager ceases to be the City Manager.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 6 – 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, injuries to employees, and natural disasters. The City carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – CONTINGENCIES

The City is involved with various matters of litigation from year to year. It is the opinion of City officials that these cases will either be handled by the City's insurance coverage or that they will not have a material effect on the City's financial condition.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund transfers – During the course of normal operations, the City has transactions between funds that include expenditures and transfers of resources primarily to provide services. During the year ended June 30, 2017, the General Fund transferred \$406,049 to the Utility Fund to subsidize operations of the fund.

Interfund balances – During the course of normal operations, the City's General Fund has loaned the Utility Fund resources to fund ongoing operations. Balances are not expected to be repaid within one year.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2017, 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 liabilities | \$ 8,724,052 | \$ 873,648 | \$ 9,597,700 |
| Deferred outflows of resources | 1,900,821 | 169,700 | 2,070,521 |
| Deferred inflows of resources | 406,757 | 115,052 | 521,809 |
| Pension expense | 924,436 | 68,961 | 993,397 |

The City reported \$605,373 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Description – City employees not covered by the other pension plans described below 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) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

| ASRS | 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 months of last 120 months | Highest 60 months of last 120 months |
| Benefit percent per year of service | 2.1% to 2.3% | 2.1% to 2.3% |

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. 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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. The City’s contributions to the pension plan for the year ended June 30, 2017,

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$179,555. The City’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

| ASRS | <u>Health Benefit Supplement Fund</u> | <u>Long-Term Disability Fund</u> |
|------|---|--------------------------------------|
| 2017 | \$ 10,055 | \$ 2,221 |
| 2016 | 8,468 | 2,032 |
| 2015 | 9,960 | 2,026 |

During fiscal year 2017, the City paid for ASRS pension and OPEB contributions as follows: 61.5 percent from the General Fund, 29.1 percent from the Utilities Fund, and 9.4 percent from the HURF Fund.

Pension Liability – At June 30, 2017, the City reported a liability of \$3,002,227 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. 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, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The City’s proportion of the net pension liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2016. The City’s proportion measured as of June 30, 2016, was .01860 percent, which was an increase of .00027 from its proportion measured as of June 30, 2015.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the City recognized pension expense for ASRS of \$236,981. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| ASRS | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 18,244 | \$ 206,531 |
| Changes of assumptions or other inputs | - | 158,842 |
| Net difference between projected and actual earnings on pension plan investments | 325,341 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 60,020 | 29,993 |
| City contributions subsequent to the measurement date | 179,555 | - |
| Total | <u>\$ 583,160</u> | <u>\$ 395,366</u> |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The \$179,555 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

| Year ended June 30: | | |
|---------------------|----|-----------|
| 2018 | \$ | (122,964) |
| 2019 | | (95,369) |
| 2020 | | 135,349 |
| 2021 | | 91,223 |

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

| ASRS | |
|-----------------------------|-------------------|
| Actuarial valuation date | June 30, 2015 |
| Actuarial roll forward date | June 30, 2016 |
| Actuarial cost method | Entry age normal |
| Asset valuation | Fair value |
| Discount rate | 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, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent 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:

| ASRS | | Long-term Arithmetic Expected Real Rate of Return |
|--------------------|--------------------------|--|
| <u>Asset Class</u> | <u>Target Allocation</u> | <u>of Return</u> |
| Equity | 58% | 6.73% |
| Fixed income | 25% | 3.70% |
| Real estate | 10% | 4.25% |
| Multi-asset | 5% | 3.41% |
| Commodities | 2% | 3.84% |
| Total | <u>100%</u> | |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS

| | 1% Decrease (7%) | Current Discount Rate (8%) | 1% Increase (9%) |
|---|---------------------|----------------------------------|---------------------|
| City's proportionate share of the net pension liability | \$ 3,828,067 | \$ 3,002,227 | \$ 2,340,083 |

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

B. Public Safety Personnel Retirement System

Plan Descriptions – City police employees 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 nine-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 issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

Benefits Provided – The PSPRS provide retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

| PSPRS | 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 months of last 20 years | Highest 60 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 services over 20 years, not to exceed 80% | 2.5% per year of credited service, not to exceed 80% |
| Accidental Disability Retirement | 50% or normal retirement, whichever is greater | |
| Catastrophic Disability Retirement | 90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater | |
| Ordinary Disability Retirement | Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20 | |
| Survivor Benefit | | |
| Retired Members | 80% to 100% of retired member's pension benefit | |
| Active Members | 80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job | |

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, 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 percent of the member's compensation for up to 12 months.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

| PSPRS | <u>PSPRS Police</u> |
|--|----------------------------|
| Inactive employees or beneficiaries currently receiving benefits | 13 |
| Inactive employees entitled to but not yet receiving benefits | 3 |
| Active employees | 13 |
| Total | <u><u>29</u></u> |

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, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

| PSPRS | <u>PSPRS Police</u> |
|----------------------------------|----------------------------|
| Active Members - Pension | 11.65% |
| City | |
| Pension | 69.52% |
| Health insurance premium benefit | 0.00% |

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, 2017, were:

| PSPRS | <u>PSPRS Police</u> |
|--|----------------------------|
| Pension: | |
| Contributions Made | \$ 477,643 |
| Health Insurance Premium Benefit: | |
| Annual OPEB cost | - |
| Contributions made | - |

During fiscal year 2017, the City paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Pension Liability (Asset) – At June 30, 2017, the City reported a net pension liability for PSPRS Police of \$6,595,473.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The total pension liabilities as of June 30, 2016, reflect 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.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

The net pension liabilities measured at June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City’s net pension liabilities as a result of these changes 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, 2016 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.50% |
| 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) |

Actuarial assumptions used in the June 30, 2016, 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 7.50 percent 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 arithmetic real rates of return for each major asset class are summarized in the following table:

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-term Expected Arithmetic Real Rate of Return</u> |
|------------------------|--------------------------|--|
| 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 | <u>100%</u> | |

Pension Discount Rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liability was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rates 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 Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension Liability (Asset)

| PSPRS | Increase (Decrease) | | |
|--|--|------------------------------------|--|
| | Total Pension Liability (Asset) (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
| Balances at June 30, 2016 | \$ 8,167,119 | \$ 1,728,251 | \$ 6,438,868 |
| Changes for the year | | | |
| Service Cost | 123,831 | - | 123,831 |
| Interest on the total pension liability | 627,072 | - | 627,072 |
| Changes of benefit terms | (33,893) | - | (33,893) |
| Differences between expected and actual experience in the measurement of the pension liability | (159,324) | - | (159,324) |
| Changes of assumptions or other inputs | 324,762 | - | 324,762 |
| Contributions-employer | - | 495,281 | (495,281) |
| Contributions-employee | - | 83,917 | (83,917) |
| Net investment income | - | 11,026 | (11,026) |
| Benefit payments, including refunds of employee contributions | (481,711) | (481,711) | - |
| Administrative expense | - | (1,988) | 1,988 |
| Other changes | - | 137,607 | (137,607) |
| Net changes | 400,737 | 244,132 | 156,605 |
| Balances at June 30, 2017 | \$ 8,567,856 | \$ 1,972,383 | \$ 6,595,473 |

Sensitivity of the City’s Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s net pension liabilities (assets) calculated using the discount rate of 7.50 percent, as well as what the City’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|-----------------------|---------------------|----------------------------------|---------------------|
| PSPRS Police | | | |
| Rate | 6.50% | 7.50% | 8.50% |
| Net pension liability | \$ 7,675,003 | \$ 6,595,473 | \$ 5,706,163 |

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense – For the year ended June 30, 2017, the City recognized pension expense of \$756,416 for PSPRS Police.

Pension Deferred Outflows/Inflows of Resources – At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| PSPRS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 254,212 | \$ 126,443 |
| Changes of assumptions or other inputs | 642,634 | - |
| Net difference between projected and actual earnings on pension plan investments | 112,872 | - |
| City contributions subsequent to the measurement date | 477,643 | - |
| Total | \$ 1,487,361 | \$ 126,443 |

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 in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | PSPRS Police | |
|---------------------|---------------------|---------|
| Year ended June 30: | | |
| 2018 | \$ | 403,759 |
| 2019 | | 308,291 |
| 2020 | | 115,596 |
| 2021 | | 55,629 |
| 2022 | | - |
| Thereafter | | - |

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – 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 plans, and the following actuarial methods and assumptions were used to establish the fiscal year 2017 contribution requirements:

| PSPRS - OPEB Contribution Requirements | |
|---|--|
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded 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% |

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

| | <u>Annual OPEB Cost</u> | <u>Percentage of Annual Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------|-------------------------|--|----------------------------|
| PSPRS Police | | | |
| June 30, 2017 | \$ - | 100% | \$ (55,562) |
| June 30, 2016 | 11,908 | 100% | (60,908) |
| June 30, 2015 | 11,458 | 100% | (88,314) |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

| | <u>PSPRS Police</u> |
|--|----------------------------|
| Actuarial value of assets (a) | \$ 221,208 |
| Actuarial accrued liability (b) | \$ 165,646 |
| Unfunded actuarial accrued liability (funding excess) (b) - (a) | \$ (55,562) |
| Funded ratio (a)/(b) | 133.5% |
| Annual covered payroll (c) | \$ 671,533 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c) | 0.00% |

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

| PSPRS - OPEB Funded Status | |
|-----------------------------------|--|
| Actuarial valuation date | June 30, 2016 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 20 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 | 7.50% |
| Projected salary increases | 4.0%-8.0% |
| Wage growth | 4.0% |

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2017

NOTE 10 – PSPRS PARKER LIABILITY

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed (put on hold) pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

PSPRS members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of affected members for each employer, along with the amount of excess contributions that must be returned to them. The City has estimated that the total amount of refunds due to employees (including applicable interest) will be \$76,528.

REQUIRED SUPPLEMENTARY INFORMATION

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 3,636,200 | \$ 3,636,200 | \$ 3,089,809 | \$ (546,391) |
| Intergovernmental | 1,428,534 | 1,428,534 | 1,423,624 | (4,910) |
| Charges for services | 197,000 | 197,000 | 200,970 | 3,970 |
| Fines and forfeitures | 125,500 | 125,500 | 79,415 | (46,085) |
| Other revenue | 538,722 | 538,722 | 84,700 | (454,022) |
| Interest | 8,000 | 8,000 | 7,828 | (172) |
| Licenses, permits and fees | 8,000 | 8,000 | 1,260 | (6,740) |
| Total revenues | <u>5,941,956</u> | <u>5,941,956</u> | <u>4,887,606</u> | <u>(1,054,350)</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 1,340,606 | 1,340,606 | 790,280 | 550,326 |
| Public safety | 2,539,515 | 2,539,515 | 2,265,463 | 274,052 |
| Public works and streets | 363,458 | 363,458 | 280,504 | 82,954 |
| Parks and recreation | 1,149,953 | 1,149,953 | 1,043,356 | 106,597 |
| Welfare | 83,874 | 83,874 | 76,962 | 6,912 |
| Capital outlay | - | - | 9,624 | (9,624) |
| Total expenditures | <u>5,477,406</u> | <u>5,477,406</u> | <u>4,466,189</u> | <u>1,011,217</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>464,550</u> | <u>464,550</u> | <u>421,417</u> | <u>(43,133)</u> |
| Other financing sources (uses) | | | | |
| Sale of assets | 4,000 | 4,000 | - | (4,000) |
| Transfers | (468,550) | (468,550) | (406,049) | 62,501 |
| Total other financing sources (uses) | <u>(464,550)</u> | <u>(464,550)</u> | <u>(406,049)</u> | <u>58,501</u> |
| Net change in fund balances | - | - | 15,368 | 15,368 |
| Fund balances, beginning of year | <u>1,643,417</u> | <u>1,643,417</u> | <u>1,643,417</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 1,643,417</u> | <u>\$ 1,643,417</u> | <u>\$ 1,658,785</u> | <u>\$ 15,368</u> |

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 681,242 | \$ 681,242 | \$ 696,167 | \$ 14,925 |
| Other revenue | 3,500 | 3,500 | 12,871 | 9,371 |
| Total revenues | <u>684,742</u> | <u>684,742</u> | <u>709,038</u> | <u>24,296</u> |
| Expenditures | | | | |
| Current | | | | |
| Public works and streets | 512,204 | 512,204 | 409,051 | 103,153 |
| Capital outlay | 172,538 | 172,538 | 172,538 | - |
| Total expenditures | <u>684,742</u> | <u>684,742</u> | <u>581,589</u> | <u>103,153</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>-</u> | <u>-</u> | <u>127,449</u> | <u>127,449</u> |
| Other financing sources (uses) | | | | |
| Transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | - | - | 127,449 | 127,449 |
| Fund balances, beginning of year | <u>(7,168)</u> | <u>(7,168)</u> | <u>(7,168)</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ (7,168)</u> | <u>\$ (7,168)</u> | <u>\$ 120,281</u> | <u>\$ 127,449</u> |

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2017

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-------------------------|-------------------------|------------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 1,829,745 | \$ 1,829,745 | \$ 497,603 | \$ (1,332,142) |
| Expenditures | | | | |
| Current | | | | |
| Public safety | 1,350,595 | 1,350,595 | 1,777 | 1,348,818 |
| Parks and recreation | 10,882 | 10,882 | 10,882 | - |
| Capital outlay | 530,768 | 530,768 | 530,768 | - |
| Total expenditures | <u>1,892,245</u> | <u>1,892,245</u> | <u>543,427</u> | <u>1,348,818</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(62,500)</u> | <u>(62,500)</u> | <u>(45,824)</u> | <u>16,676</u> |
| Other financing sources (uses) | | | | |
| Transfers | <u>62,500</u> | <u>62,500</u> | <u>-</u> | <u>(62,500)</u> |
| Net change in fund balances | - | - | (45,824) | (45,824) |
| Fund balances, beginning of year | <u>47,031</u> | <u>47,031</u> | <u>47,031</u> | <u>-</u> |
| Fund balances, end of year | <u><u>\$ 47,031</u></u> | <u><u>\$ 47,031</u></u> | <u><u>\$ 1,207</u></u> | <u><u>\$ (45,824)</u></u> |

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2017

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

A.R.S. requires the City to prepare and adopt a balanced budget annually for each governmental fund. The City Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the City Council's approval. With the exception of the general fund, each fund includes only one department.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

The City's budget is prepared on a basis consistent with generally accepted accounting principles.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of the City's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2017

Arizona State Retirement System

| | Reporting Fiscal Year (Measurement Date) | | | |
|---|---|------------------------------|------------------------------|------------------------------------|
| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2008 |
| City's proportion of the net pension liability | 0.018600% | 0.018330% | 0.018808% | Information not available |
| City's proportionate share of the net pension liability | \$ 3,002,227 | \$ 2,854,998 | \$ 2,782,938 | |
| City's covered-employee payroll | \$ 1,693,548 | \$ 1,688,200 | 1,695,402 | |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 177.27% | 169.11% | 164.15% | |
| Plan fiduciary net position as a percentage of the total pension liability | 67.06% | 68.35% | 69.49% | |

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Changes in the City's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2017

PSPRS

| | Reporting Fiscal Year (Measurement Date) | | | |
|--|---|------------------------|------------------------|------------------------------|
| | 2017 (2016) | 2016 (2015) | 2015 (2014) | 2014 through 2008 |
| Total pension liability | | | | Information not available |
| Service cost | \$ 123,831 | \$ 108,893 | \$ 128,316 | |
| Interest on the total pension liability | 627,072 | 591,008 | 458,327 | |
| Changes of benefit terms | (33,893) | - | 219,150 | |
| Differences between expected and actual experience in the measurement of the pension liability | (159,324) | 251,187 | 302,968 | |
| Changes of assumptions or other inputs | 324,762 | - | 1,073,926 | |
| Benefit payments, including refunds of employee contributions | (481,711) | (516,581) | (448,947) | |
| Net change in total pension liability | 400,737 | 434,507 | 1,733,740 | |
| Total pension liability - beginning | 8,167,119 | 7,732,612 | 5,998,872 | |
| Total pension liability - ending (a) | <u>\$ 8,567,856</u> | <u>\$ 8,167,119</u> | <u>\$ 7,732,612</u> | |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 495,281 | \$ 307,328 | \$ 281,536 | |
| Contributions - employee | 83,917 | 74,656 | 68,611 | |
| Net investment income | 11,026 | 64,270 | 230,716 | |
| Benefit payments, including refunds of employee contributions | (481,711) | (516,581) | (448,947) | |
| Administrative expense | (1,988) | (1,927) | - | |
| Other changes | 137,607 | (36,229) | (144,423) | |
| Net change in plan fiduciary net position | 244,132 | (108,483) | (12,507) | |
| Plan fiduciary net position - beginning | 1,728,251 | 1,836,734 | 1,849,241 | |
| Plan fiduciary net position - ending (b) | <u>\$ 1,972,383</u> | <u>\$ 1,728,251</u> | <u>\$ 1,836,734</u> | |
| City's net pension liability (asset) - ending (a) - (b) | <u>\$ 6,595,473</u> | <u>\$ 6,438,868</u> | <u>\$ 5,895,878</u> | |
| Plan fiduciary net position as a percentage of the total pension liability | 23.02% | 21.16% | 23.75% | |
| Covered-employee payroll | \$ 671,533 | \$ 697,600 | \$ 612,404 | |
| City's net pension liability (asset) as a percentage of covered-employee payroll | 982.15% | 923.00% | 962.74% | |

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of City Pension Contributions
June 30, 2017

Arizona State Retirement System

| | Reporting Fiscal Year | | | | 2013 through 2008 |
|---|------------------------------|---------------------|---------------------|---------------------|------------------------------|
| | 2017 | 2016 | 2015 | 2014 | |
| Statutorily required contribution | \$ 179,555 | \$ 183,750 | \$ 183,845 | \$ 181,408 | Information not available |
| City's contributions in relation to the statutorily required contribution | <u>(179,555)</u> | <u>(183,750)</u> | <u>(183,845)</u> | <u>(181,408)</u> | |
| City's contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| City's covered-employee payroll | <u>\$ 1,611,806</u> | <u>\$ 1,693,548</u> | <u>\$ 1,688,200</u> | <u>\$ 1,695,402</u> | |
| City's contributions as a percentage of covered-employee payroll | 11.14% | 10.85% | 10.89% | 10.70% | |

PSPRS

| | Reporting Fiscal Year | | | | 2013 through 2008 |
|---|------------------------------|-------------------|-------------------|-------------------|------------------------------|
| | 2017 | 2016 | 2015 | 2014 | |
| Actuarially determined contribution | \$ 477,643 | \$ 495,281 | \$ 307,328 | \$ 281,536 | Information not available |
| City's contributions in relation to the actuarially determined contribution | <u>(477,643)</u> | <u>(495,281)</u> | <u>(307,328)</u> | <u>(281,536)</u> | |
| City's contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| City's covered-employee payroll | <u>\$ 821,013</u> | <u>\$ 671,533</u> | <u>\$ 697,600</u> | <u>\$ 612,402</u> | |
| City's contributions as a percentage of covered-employee payroll | 58.18% | 73.75% | 44.06% | 45.97% | |

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2017

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 method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period as of the 2015 actuarial valuation | 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 | In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85% |
| Projected salary increases | In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%. |
| Wage growth | In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% |
| Retirement age | Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011. |
| Mortality | RP-2000 mortality table (adjusted by 105% for both males and females) |

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

Health Insurance Premium Benefit - PSPRS

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 06/30/16 | \$ 221,208 | \$ 165,646 | \$ (55,562) | 133.5 % | \$ 671,533 | 0% |
| 06/30/15 | 215,518 | 154,610 | (60,908) | 139.4 | 697,600 | 0% |
| 06/30/14 | 202,543 | 114,229 | (88,314) | 177.3 | 612,402 | 0% |

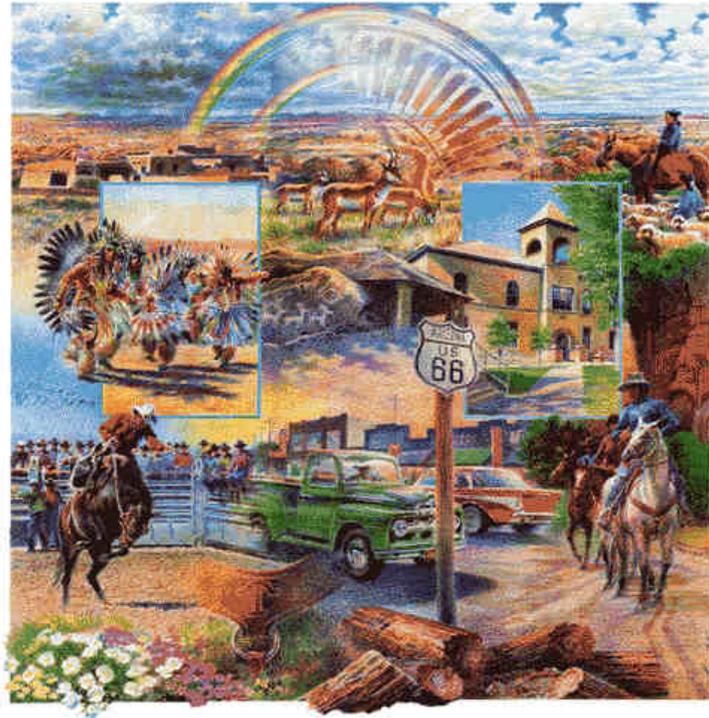
See accompanying notes to schedule of agent OPEB plans' funding progress.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

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 plan recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plan transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from the plan's Pension Fund to the new Health Insurance Fund.

REPORTS REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS





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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the City Council
City of Holbrook, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Holbrook, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City of Holbrook, Arizona's basic financial statements and have issued our report thereon dated December 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Holbrook, Arizona's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Holbrook, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Holbrook, Arizona's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items **2011-02**, **2011-03**, and **2011-04** to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and responses as item **2013-01** to be a significant deficiency.

Compliance and Other Matters

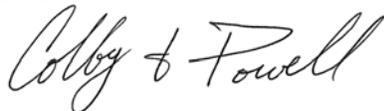
As part of obtaining reasonable assurance about whether City of Holbrook, Arizona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Holbrook, Arizona's Response to Findings

City of Holbrook, Arizona's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. City of Holbrook, Arizona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 19, 2017

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2017

Financial Statement Findings

Item: 2011-02 (Repeat finding)

Subject: Cash disbursements.

Condition: The City of Holbrook's processes for cash disbursements require the City Council members to approve a listing of invoices ready for payment. After the listing is approved by Council, the City Clerk prints checks and then stamps signatures of check signers on each check. The City Clerk completes the disbursement process by mailing each check to the appropriate vendors. Actual invoices and checks are not reviewed and approved by check signers. Check signers are not signing checks and have allowed the City Clerk to sign for them.

Recommendation: Check signers should review supporting documents for each check prepared and evidence their review by actually signing the check. The City should not use a signature stamp for signing checks. Signed checks should not be returned to the person that has prepared the check.

Response: Management realizes the importance of separation of duties and is looking into ways to fulfill this requirement with minimal staff.

Item: 2011-03 (Repeat finding)

Subject: Bank reconciliations.

Condition: During our audit it was noted that cash bank reconciliations performed by the Finance Director were not reviewed on a monthly basis.

Recommendation: Management should assign someone to review all cash bank reconciliations each month and initial and date the reconciliation to evidence the review.

Response: Management is working on training staff to perform bank reconciliations. Management will review the reconciliation and initial and date to evidence the review. With minimal staff this has been difficult to fulfill.

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2017

Item: 2011-04 (Repeat finding)

Subject: Misstatements requiring audit adjustments.

Condition: During our audit we noted misstatements that were not identified by the City's finance department which required us to propose adjusting journal entries.

Recommendation: We recommend that management review all audit entries to help in identifying areas in the accounting system that required adjustment. The finance department should ensure that these areas are complete before each audit.

Response: Management agrees with this finding and will work on improving the accounting reconciliations to ensure that there are less audit adjustments.

Item: 2013-01 (Repeat finding)

Subject: Formal written accounting policies and procedures.

Condition: During our audit, it was noted that there are no written accounting policies and procedures.

Recommendation: We recommend that the City institute a program to methodically identify and document its significant accounting processes. Accounting processes, in particular, are procedure to initiate, authorize, record, process, and report transactions. Processes include activities and procedures involved in repeatable accounting transactions or events, such as paying invoices, processing payroll, taking physical inventory, preparing journal entries, etc.

Response: Management will work on documenting its significant accounting processes.