

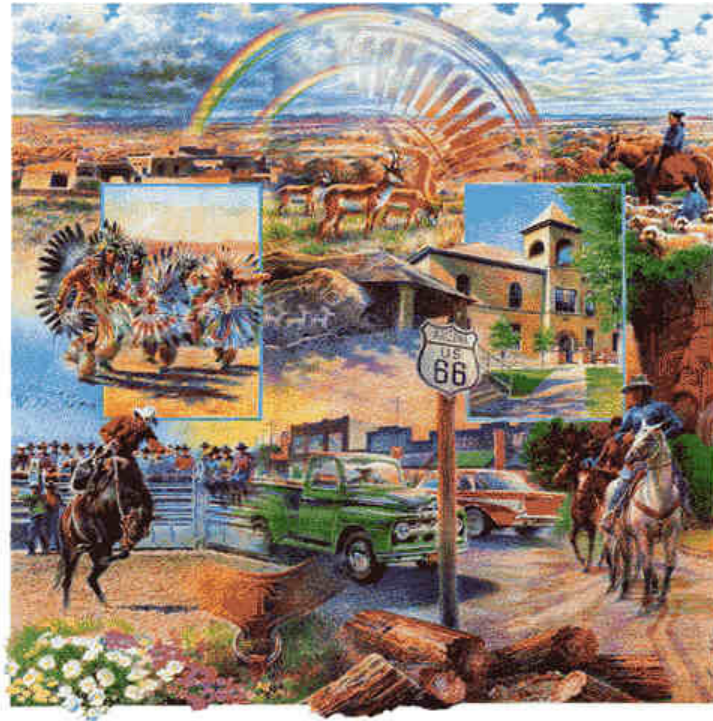
**CITY OF HOLBROOK, ARIZONA**

Annual Financial Statements  
and  
Independent Auditors' Report  
June 30, 2018



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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 of the City of Holbrook, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holbrook, Arizona, as of June 30, 2018, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, for the year ended June 30, 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, Budgetary Comparison Schedules on pages 54 through 57, Schedule of the City's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans on pages 58 through 59, Schedule of Changes in the City's Net Pension/OPEB Liability (Asset) and Related Ratios – Agent Pension Plans on pages 60 through 61, and Schedule of City Pension/OPEB Contributions on pages 62 through 64 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 26, 2018, 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. Accordingly, 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 and other dedicated state transportation revenues, insofar as they relate to accounting matters.

A handwritten signature in cursive script that reads "Colby & Powell".

December 26, 2018

**City of Holbrook, Arizona**  
**Management's Discussion and Analysis**  
**June 30, 2018**

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, 2018. Please read it in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- Total governmental fund balances of \$2,092,187, a \$311,914 increase.
- Total General Fund revenues exceeded total General Fund expenditures by \$722,027.
- Fair Market Value of Investments as of June 30, 2018 was \$267,388.
- 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, 2018**

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, 2018**

**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 million as of June 30, 2018 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	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Current and other assets	\$ 2,341,166	\$ 1,980,184	\$ 301,723	\$ 715,579	\$ 2,642,889	\$ 2,695,763
Capital assets	7,814,348	7,864,973	7,803,661	8,429,731	15,618,009	16,294,704
Total assets	10,155,514	9,845,157	8,105,384	9,145,310	18,260,898	18,990,467
Deferred outflows of resources	1,468,783	1,908,692	85,443	172,611	1,554,226	2,081,303
Current liabilities	348,974	403,068	1,433,229	1,815,279	1,782,203	2,218,347
Non-current liabilities	8,838,906	8,808,679	1,462,044	2,041,635	10,300,950	10,850,314
Total liabilities	9,187,880	9,211,747	2,895,273	3,856,914	12,083,153	13,068,661
Deferred inflows of resources	547,709	406,757	123,613	115,052	671,322	521,809
Net position:						
Net investment in capital assets	7,814,348	7,864,973	6,632,085	6,890,327	14,446,433	14,755,300
Restricted	157,935	121,488	161,654	-	319,589	121,488
Unrestricted	(6,083,575)	(5,851,116)	(1,621,798)	(1,544,372)	(7,705,373)	(7,395,488)
Total net position	\$ 1,888,708	\$ 2,135,345	\$ 5,171,941	\$ 5,345,955	\$ 7,060,649	\$ 7,481,300

**Governmental Activities**

The cost of all governmental activities this year was \$6,266,622. As shown on the Statement of Activities, \$265,198 of this cost was paid for by those who directly benefited from the programs; \$1,199,151 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 \$1,464,349. General taxes, state revenue sharing and investment earnings totaled \$4,965,749.

The City's programs include: general government, public safety, public works and streets, parks and recreation, and welfare. Each program's 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, 2018**

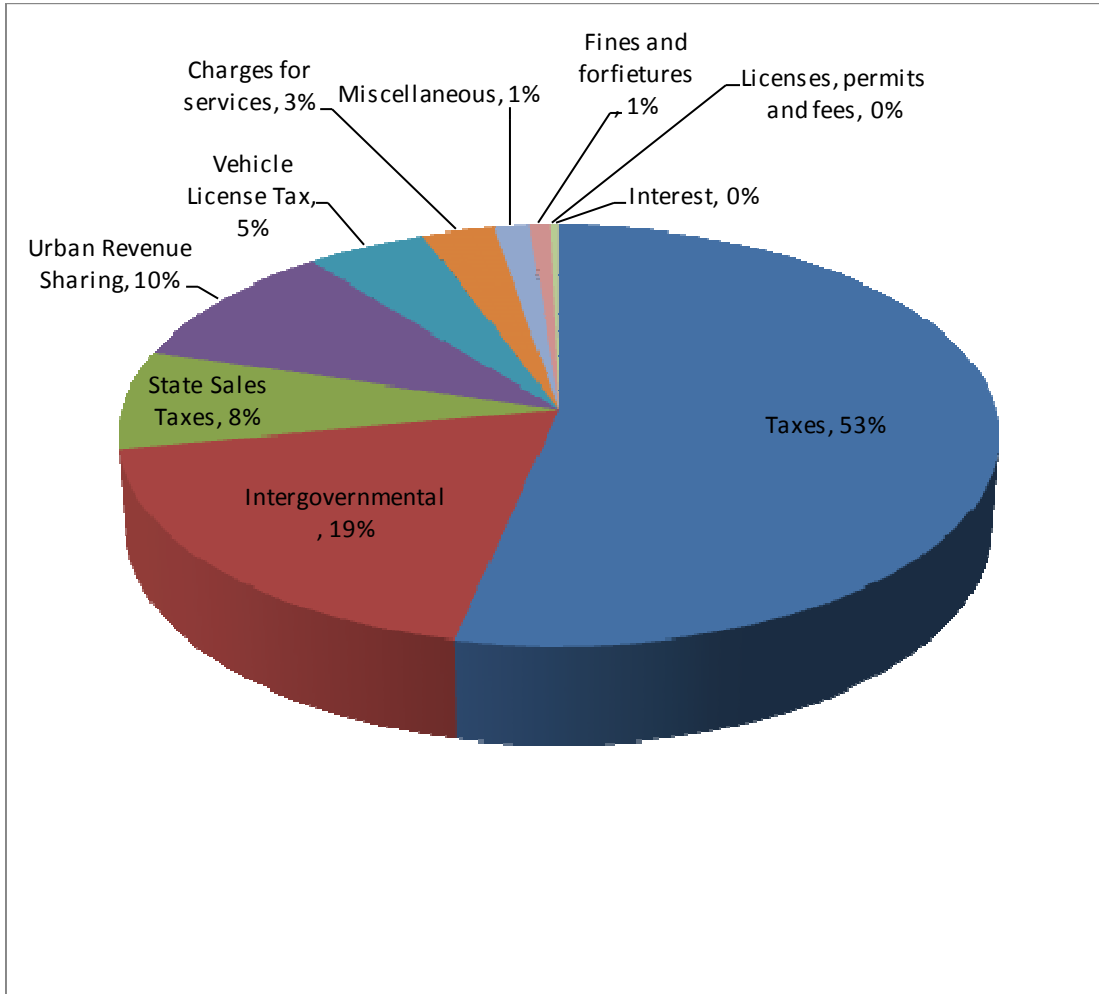
**CITY OF HOLBROOK, ARIZONA**  
**Condensed Statement of Activities**

	Governmental Activities		Business-type Activities		Total	
	6/30/18	6/30/17	6/30/18	6/30/17	6/30/18	6/30/17
<b>Revenues</b>						
Program revenues						
Fees, fines, and charges for services	\$ 265,198	\$ 293,499	\$ 1,909,179	\$ 1,841,447	\$ 2,174,377	\$ 2,134,946
Operating grants and contributions	754,424	845,783	-	-	754,424	845,783
Capital grants and contributions	444,727	585,529	-	-	444,727	585,529
General revenues						
Local taxes	3,431,254	3,089,809	-	-	3,431,254	3,089,809
State shared revenues	1,437,166	1,373,589	-	-	1,437,166	1,373,589
Investment earnings	1,535	1,260	38	-	1,573	1,260
Miscellaneous	95,794	92,286	-	-	95,794	92,286
Gain (loss) on disposal of capital assets	-	-	-	-	-	-
<b>Total revenues</b>	<u>6,430,098</u>	<u>6,281,755</u>	<u>1,909,217</u>	<u>1,841,447</u>	<u>8,339,315</u>	<u>8,123,202</u>
<b>Expenses</b>						
General government	821,822	869,736	-	-	821,822	869,736
Public safety	2,995,583	2,702,038	-	-	2,995,583	2,702,038
Public works and streets	1,276,674	983,648	-	-	1,276,674	983,648
Parks and recreation	1,098,720	1,150,297	-	-	1,098,720	1,150,297
Welfare	73,823	78,103	-	-	73,823	78,103
Utilities	-	-	2,493,344	2,426,392	2,493,344	2,426,392
<b>Total expenses</b>	<u>6,266,622</u>	<u>5,783,822</u>	<u>2,493,344</u>	<u>2,426,392</u>	<u>8,759,966</u>	<u>8,210,214</u>
Change in net position before transfers	163,476	497,933	(584,127)	(584,945)	(420,651)	(87,012)
Transfers	(410,113)	(406,049)	410,113	406,049	-	-
<b>Change in net position</b>	<u>(246,637)</u>	<u>91,884</u>	<u>(174,014)</u>	<u>(178,896)</u>	<u>(420,651)</u>	<u>(87,012)</u>
Net position, beginning of year	2,135,345	2,043,461	5,345,955	5,524,851	7,481,300	7,568,312
<b>Net position, end of year</b>	<u>\$ 1,888,708</u>	<u>\$ 2,135,345</u>	<u>\$ 5,171,941</u>	<u>\$ 5,345,955</u>	<u>\$ 7,060,649</u>	<u>\$ 7,481,300</u>

**City of Holbrook, Arizona  
Management's Discussion and Analysis  
June 30, 2018**

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, 2018, as reflected in the Statement of Net Position was \$5,171,941. The cost of providing all business-type activities this year was \$2,493,344. As shown in the Statement of Activities, the amounts paid by users of the system were \$1,909,179. Transfers in from governmental activities were \$410,113. Net position decreased by \$174,014.

**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.

**City of Holbrook, Arizona**  
**Management's Discussion and Analysis**  
**June 30, 2018**

**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.

As of the end of the current fiscal year, the City of Holbrook's governmental funds reported combined ending fund balances of \$2,092,187, an increase of \$311,914 in comparison with the prior year. \$1,009,109 of the ending fund balance constitutes unassigned fund balance, which is available for new spending at the government's discretion. \$925,143 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. \$157,935 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 \$1,009,109. 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 44.11% and 22.42% respectively of total General Fund expenditures excluding transfers. During the year, the City of Holbrook's General Fund balance increased by \$326,631.

The Highway User Revenue Fund has a total fund balance of \$106,771. The net decrease in the fund balance during the current year was \$13,510. 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 \$5,171,941 consisting of \$6,632,085 net investment in capital assets and \$(1,621,798) 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 \$5,280,981 were less than budgeted revenues of \$5,547,153 by \$(266,172) and the General Fund's expenditures of \$4,501,211 were less than budgeted expenditures of \$5,083,672 by \$582,461.

HURF Revenues of \$703,886 were more than budgeted revenues of \$684,742 by \$19,144 and expenditures of \$717,396 were more than budgeted expenditures of \$684,742 by \$32,654.

**City of Holbrook, Arizona**  
**Management's Discussion and Analysis**  
**June 30, 2018**

Management has made an improved effort in repairing infrastructure and has tried not to leave a fund balance.

**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 2018, net capital assets of the government activities totaled \$7,814,348 and the net capital assets of the business-type activities totaled \$7,803,661. Combined capital asset additions for fiscal year 2018 totaled \$492,372. 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 \$8,980,527 recorded in the governmental activities of which \$8,762,932 is related to a net pension liability. The City had \$1,860,106 in the business-type activities of which \$1,153,000 is related to bond indebtedness and \$673,690 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 \$574,220.

**NEXT YEAR'S BUDGET AND ECONOMIC FACTORS**

In considering the City's budget for fiscal year 2018/2019, 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 4.2% increase from the level of fiscal year 2017/2018. This increase was mainly from establishing new rates in the Utility Fund for adjudication and capital improvements.

**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, 2018**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 876,669	\$ 50	\$ 876,719
Cash and cash equivalents, restricted	-	84,177	84,177
Taxes receivable	25,951	-	25,951
Due from other governments	514,430	-	514,430
Receivables, net	-	169,138	169,138
Inventory	26,184	46,006	72,190
Interactivity balances	856,306	(856,306)	-
Net pension and other postemployment benefits asset	41,626	2,352	43,978
Capital assets, not being depreciated	914,945	282,822	1,197,767
Capital assets, being depreciated, net	6,899,403	7,520,839	14,420,242
<b>Total assets</b>	<b>10,155,514</b>	<b>7,249,078</b>	<b>17,404,592</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions and other postemployment benefits	1,468,783	85,443	1,554,226
<b>LIABILITIES</b>			
Accounts payable	142,146	66,985	209,131
Accrued expenses	65,207	9,130	74,337
Interest payable	-	18,576	18,576
Customer deposits	-	84,170	84,170
Noncurrent liabilities			
Due within 1 year	141,621	398,062	539,683
Due in more than 1 year	8,838,906	1,462,044	10,300,950
<b>Total liabilities</b>	<b>9,187,880</b>	<b>2,038,967</b>	<b>11,226,847</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions and other postemployment benefits	547,709	123,613	671,322
<b>NET POSITION</b>			
Net investment in capital assets	7,814,348	6,632,085	14,446,433
Restricted for:			
Highways and streets	106,771	-	106,771
Court enhancement	51,164	-	51,164
Capital improvements	-	161,654	161,654
Unrestricted (deficit)	(6,083,575)	(1,621,798)	(7,705,373)
<b>Total net position</b>	<b>\$ 1,888,708</b>	<b>\$ 5,171,941</b>	<b>\$ 7,060,649</b>

*See accompanying notes to financial statements.*



**City of Holbrook, Arizona**  
**Statement of Activities**  
**Year Ended June 30, 2018**

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges	Operating	Capital	Primary Government		
		for	Grants and	Grants and	Governmental	Business-type	Total
		Services	Contributions	Contributions	Activities	Activities	
<b>Primary government:</b>							
Governmental activities							
General government	\$ 821,822	\$ 20,757	\$ -	\$ -	\$ (801,065)	\$ -	\$ (801,065)
Public safety	2,995,583	67,183	504	6,366	(2,921,530)	-	(2,921,530)
Public works and streets	1,276,674	40,907	753,920	435,656	(46,191)	-	(46,191)
Parks and recreation	1,098,720	136,351	-	2,705	(959,664)	-	(959,664)
Welfare	73,823	-	-	-	(73,823)	-	(73,823)
<b>Total governmental activities</b>	<b>6,266,622</b>	<b>265,198</b>	<b>754,424</b>	<b>444,727</b>	<b>(4,802,273)</b>	<b>-</b>	<b>(4,802,273)</b>
Business-type activities							
Utilities	2,493,344	1,909,179	-	-	-	(584,165)	(584,165)
<b>Total business-type activities</b>	<b>2,493,344</b>	<b>1,909,179</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(584,165)</b>	<b>(584,165)</b>
<b>Total primary government</b>	<b>\$ 8,759,966</b>	<b>\$ 2,174,377</b>	<b>\$ 754,424</b>	<b>\$ 444,727</b>	<b>(4,802,273)</b>	<b>(584,165)</b>	<b>(5,386,438)</b>
<b>General revenue:</b>							
Taxes							
Sales taxes					3,339,700	-	3,339,700
Property taxes					12	-	12
Franchise taxes					91,542	-	91,542
State sales tax revenue sharing					487,187	-	487,187
Auto lieu tax revenue sharing					321,516	-	321,516
State revenue sharing					628,463	-	628,463
Interest income					1,535	38	1,573
Miscellaneous					95,794	-	95,794
<b>Transfers:</b>					(410,113)	410,113	-
Total general revenues & transfers					4,555,636	410,151	4,965,787
Change in net position					(246,637)	(174,014)	(420,651)
Net position, beginning of year, as restated					2,135,345	5,345,955	7,481,300
Net position, end of year					\$ 1,888,708	\$ 5,171,941	\$ 7,060,649

*See accompanying notes to financial statements.*

**City of Holbrook, Arizona**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 734,141	\$ 99,502	\$ 43,026	\$ 876,669
Taxes receivable	25,951	-	-	25,951
Due from other governments	449,107	65,323	-	514,430
Inventory	26,184	-	-	26,184
Due from other funds	898,959	-	-	898,959
<b>Total assets</b>	<b>2,134,342</b>	<b>164,825</b>	<b>43,026</b>	<b>2,342,193</b>
<b>LIABILITIES</b>				
Accounts payable	89,706	52,440	-	142,146
Accrued expenses	59,220	5,614	373	65,207
Due to other funds	-	-	42,653	42,653
<b>Total liabilities</b>	<b>148,926</b>	<b>58,054</b>	<b>43,026</b>	<b>250,006</b>
<b>FUND BALANCES</b>				
Unspendable	925,143	-	-	925,143
Restricted for:				
Highways and streets	-	106,771	-	106,771
Court enhancement	51,164	-	-	51,164
Unassigned	1,009,109	-	-	1,009,109
<b>Total fund balances</b>	<b>1,985,416</b>	<b>106,771</b>	<b>-</b>	<b>2,092,187</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,134,342</b>	<b>\$ 164,825</b>	<b>\$ 43,026</b>	<b>\$ 2,342,193</b>

*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, 2018**

Fund balances-total governmental funds	\$ 2,092,187
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,814,348
Net pension assets held in trust for future benefits are not available for City operations and, therefore, are not reported in the funds.	41,626
Long-term liabilities, such as net pension/OPEB liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(8,980,527)
Deferred outflows and inflows of resources related to pensions/OPEB and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not	<u>921,074</u>
<b>Net position of governmental activities</b>	<u><u>\$ 1,888,708</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, 2018**

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 3,431,254	\$ -	\$ -	\$ 3,431,254
Intergovernmental	1,487,201	703,886	445,231	2,636,318
Charges for services	191,095	-	-	191,095
Other revenue	95,792	-	-	95,792
Fines and forfeitures	53,347	-	-	53,347
Licenses, permits and fees	20,757	-	-	20,757
Interest	1,535	-	-	1,535
<b>Total revenues</b>	<u>5,280,981</u>	<u>703,886</u>	<u>445,231</u>	<u>6,430,098</u>
<b>Expenditures</b>				
Current				
General government	756,374	-	-	756,374
Public safety	2,335,998	-	7,814	2,343,812
Public works and streets	289,521	717,396	-	1,006,917
Parks and recreation	1,033,043	-	16,543	1,049,586
Welfare	76,161	-	-	76,161
Capital outlay	10,114	-	465,107	475,221
<b>Total expenditures</b>	<u>4,501,211</u>	<u>717,396</u>	<u>489,464</u>	<u>5,708,071</u>
Excess (deficiency) of revenues over (under) expenditures	<u>779,770</u>	<u>(13,510)</u>	<u>(44,233)</u>	<u>722,027</u>
<b>Other financing sources (uses)</b>				
Transfers	<u>(453,139)</u>	<u>-</u>	<u>43,026</u>	<u>(410,113)</u>
<b>Net change in fund balances</b>	326,631	(13,510)	(1,207)	311,914
Fund balances, beginning of year	<u>1,658,785</u>	<u>120,281</u>	<u>1,207</u>	<u>1,780,273</u>
<b>Fund balances, end of year</b>	<u>\$ 1,985,416</u>	<u>\$ 106,771</u>	<u>\$ -</u>	<u>\$ 2,092,187</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, 2018**

Net change in fund balances-total governmental funds \$ 311,914

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

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.

Capital outlay	475,221	
Depreciation expense	(525,846)	
	(50,625)	(50,625)

City pension/OPEB 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/OPEB liability is measured a year before the City's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB,

City pension/OPEB contributions	446,655	
Pension/OPEB expense	(1,055,549)	
	(608,894)	(608,894)

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

Decrease in PSPRS-Parker lawsuit liability	76,528	
Increase in manager contract liability	(6,684)	
Decrease in compensated absences	31,124	
	100,968	100,968

**Change in net position of governmental activities \$ (246,637)**

*See accompanying notes to financial statements.*

**City of Holbrook, Arizona**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2018**

	Utility Fund
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 50
Cash and cash equivalents, restricted	84,177
Accounts receivable, net	169,138
Inventory	46,006
<b>Total current assets</b>	<b>299,371</b>
<b>Noncurrent assets</b>	
Other postemployment benefits (OPEB) asset	2,352
Capital assets, net of accumulated depreciation, where applicable	7,803,661
<b>Total noncurrent assets</b>	<b>7,806,013</b>
<b>Total assets</b>	<b>8,105,384</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions and other postemployment benefits	85,443
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	66,985
Accrued expenses	9,130
Accrued interest payable	18,576
Current portion of long-term debt	398,062
Customer deposits	84,170
<b>Total current liabilities</b>	<b>576,923</b>
<b>Noncurrent liabilities</b>	
Due to other funds	856,306
Compensated absences	8,354
Notes payable	780,000
Net pension liability and other postemployment benefits	673,690
<b>Total noncurrent liabilities</b>	<b>2,318,350</b>
<b>Total liabilities</b>	<b>2,895,273</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions and other postemployment benefits	123,613
<b>NET POSITION</b>	
Net investment in capital assets	6,632,085
Restricted for capital improvements	161,654
Unrestricted (deficit)	(1,621,798)
<b>Total net position</b>	<b>\$ 5,171,941</b>

*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, 2018**

	Utility Fund
<b>Operating revenues</b>	
Charges for services (net of bad debts of \$32,964)	\$ 1,856,812
Miscellaneous	52,367
<b>Total operating revenues</b>	<b>1,909,179</b>
<b>Operating expenses</b>	
Personnel	536,080
Service, supplies and other	1,276,892
Depreciation	643,221
<b>Total operating expenses</b>	<b>2,456,193</b>
<b>Operating income (loss)</b>	<b>(547,014)</b>
<b>Nonoperating revenues (expenses)</b>	
Interest income	38
Interest expense	(37,151)
<b>Total nonoperating revenues (expenses)</b>	<b>(37,113)</b>
<b>Income (loss) before contributions, gains, losses, and transfers</b>	<b>(584,127)</b>
Transfers in	410,113
<b>Increase (decrease) in net position</b>	<b>(174,014)</b>
Total net position, beginning of year, as restated	5,345,955
<b>Total net position, end of year</b>	<b>\$ 5,171,941</b>

*See accompanying notes to financial statements.*

**City of Holbrook, Arizona  
Statement of Cash Flows  
Proprietary Funds  
Years Ended June 30, 2018**

	Utility Fund
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,947,212
Payments to suppliers and providers of goods and services	(1,394,043)
Payments to employees	(551,311)
<b>Net cash provided by (used for)         operating activities</b>	<b>1,858</b>
<b>Cash flows from noncapital financing activities:</b>	
Advances (Repayments) to/from other funds	(372,165)
Net transfers (to) from other funds	410,113
<b>Net cash provided by (used for)         noncapital financing activities</b>	<b>37,948</b>
<b>Cash flows from capital and related financing activities:</b>	
Purchase of capital assets	(17,151)
Principal paid on notes payable	(363,000)
Interest paid	(41,979)
<b>Net cash provided by (used for) capital         and related financing activities</b>	<b>(422,130)</b>
<b>Cash flows from investing activities:</b>	
Interest received	38
<b>Net increase (decrease) in cash         and cash equivalents</b>	<b>(382,286)</b>
Cash and cash equivalents, beginning of year	466,513
<b>Cash and cash equivalents, end of year</b>	<b>\$ 84,227</b>
Cash and cash equivalents	\$ 50
Cash and cash equivalents, restricted	84,177
<b>Cash and cash equivalents, end of year</b>	<b>\$ 84,227</b>

*See accompanying notes to financial statements.*



**City of Holbrook, Arizona**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Years Ended June 30, 2018**  
*(Continued)*

		Utility Fund
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$	(547,014)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		643,221
Bad debts		32,964
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable		958
Net pension and other postemployment benefits asset		2,352
Deferred outflows of resources related to pensions and other postemployment benefits		87,168
Accounts payable		(7,775)
Accrued expenses		120
Customer deposits		4,111
Compensated absences payable		(15,351)
Net pension and other postemployment benefits liability		(207,457)
Deferred inflows of resources related to pensions and other postemployment benefits		8,561
<b>Net cash provided (used) by operating activities</b>	<b>\$</b>	<b>1,858</b>

*See accompanying notes to financial statements.*

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***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.

For the year ended June 30, 2018, the City implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. GASB Statement No. 75 established standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to other postemployment benefits (OPEB) provided through defined benefit OPEB plans. In addition, Statement No. 75 requires disclosure of information related to OPEB.

**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

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

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.

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, 2018 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.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

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.

**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.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**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, 2018, for the Utility Fund was \$182,000.

**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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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, 2018**

***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 an unlimited amount of sick leave hours. Except for those employees who were hired prior to August 13, 2009, all sick leave hours accrued are forfeited upon termination. All those 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.

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.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued***

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. Postemployment Benefits**

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the 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.

**N. Budgets**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at year end. The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

Expenditures may not legally exceed budgeted appropriations at the department level. The individual budgetary comparison schedules as listed in the table of contents present all major governmental funds which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2018, if any.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE**

Net position as of July 1, 2017, has been restated as follows for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), as amended by GASB Statement No. 85, *Omnibus 2017*.

	Governmental Activities	Business-type Activities	Total
Net position as previously reported at June 30, 2017	\$ 2,096,695	\$ 5,345,839	\$ 7,442,534
Prior period adjustments- implementation of GASB 75:			
Net OPEB asset (measurement date as of June 30, 2016)	38,335	-	38,335
Net OPEB liability (measurement date as of June 30, 2016)	(7,556)	(2,795)	(10,351)
Deferred outflows-City contributions made during fiscal year 2017	7,871	2,911	10,782
Total prior period adjustment	38,650	116	38,766
Net position, as restated, July 1, 2017	\$ 2,135,345	\$ 5,345,955	\$ 7,481,300
	Utilities Fund		
Net position as previously reported at June 30, 2017	\$ 5,345,839		
Prior period adjustments- implementation of GASB 75:			
Net OPEB liability (measurement date as of June 30, 2016)	(2,795)		
Deferred outflows-City contributions made during fiscal year 2017	2,911		
Total prior period adjustment	116		
Net position, as restated, July 1, 2017	\$ 5,345,955		



**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 3 – 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, 2018**

**NOTE 3 – DEPOSITS AND INVESTMENTS – Continued**

*Restricted cash* – Restricted cash in the Utility Fund consists of \$84,170 reserved for refundable customer deposits and \$7 reserved for debt service.

*Deposits* – At June 30, 2018, the carrying amount of the City’s total nonpooled cash in bank was \$693,109 and the bank balance was \$810,364. 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, 2018, the investments consisted of the City’s investment in the State Treasurer’s investment pool. The reported amount of \$267,388 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	693,109
Amount of investments	267,388
Total cash, deposits, and investments	960,897
Cash and cash equivalents, restricted	(84,177)
Total cash and cash equivalents	\$ 876,720

**NOTE 4 – DUE FROM OTHER GOVERNMENTS**

Amounts due at June 30, 2018 from other governments in the Governmental Funds consisted of the following:

Description	General Fund	HURF Fund	Total
<u>State of Arizona:</u>			
City sales tax	\$ 419,508	\$ -	\$ 419,508
Highway user revenue	-	65,323	65,323
State sales tax	17,118	-	17,118
Vehicle license tax	12,442	-	12,442
<u>Navajo County - Property tax</u>	39	-	39
	\$ 449,107	\$ 65,323	\$ 514,430

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Governmental activities</u>			
	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 914,945	\$ -	\$ -	\$ 914,945
Capital assets being depreciated:				
Buildings	5,780,789	465,107	-	6,245,896
Furniture, equipment and vehicles	3,865,913	10,114	-	3,876,027
Infrastructure - roads	5,358,849	-	-	5,358,849
Runway and taxiway	937,154	-	-	937,154
Improvements - other	116,366	-	-	116,366
<b>Total</b>	<u>16,059,071</u>	<u>475,221</u>	<u>-</u>	<u>16,534,292</u>
Less accumulated depreciation for:				
Buildings	(3,371,640)	(150,479)	-	(3,522,119)
Furniture, equipment and vehicles	(3,294,353)	(139,598)	-	(3,433,951)
Infrastructure - roads	(1,613,158)	(219,746)	-	(1,832,904)
Runway and taxiway	(791,937)	(10,220)	-	(802,157)
Improvements - other	(37,955)	(5,803)	-	(43,758)
<b>Total</b>	<u>(9,109,043)</u>	<u>(525,846)</u>	<u>-</u>	<u>(9,634,889)</u>
<b>Total capital assets being depreciated, net</b>	<u>6,950,028</u>	<u>(50,625)</u>	<u>-</u>	<u>6,899,403</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 7,864,973</u>	<u>\$ (50,625)</u>	<u>\$ -</u>	<u>\$ 7,814,348</u>
	<u>Business-type activities</u>			
	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
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	1,628,453	17,151	-	1,645,604
<b>Total</b>	<u>32,614,404</u>	<u>17,151</u>	<u>-</u>	<u>32,631,555</u>
Less accumulated depreciation for:				
Utility systems	(23,055,398)	(581,417)	-	(23,636,815)
Furniture, equipment and vehicles	(1,412,096)	(61,804)	-	(1,473,900)
<b>Total</b>	<u>(24,467,494)</u>	<u>(643,221)</u>	<u>-</u>	<u>(25,110,715)</u>
<b>Total capital assets being depreciated, net</b>	<u>8,146,909</u>	<u>(626,070)</u>	<u>-</u>	<u>7,520,839</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 8,429,731</u>	<u>\$ (626,070)</u>	<u>\$ -</u>	<u>\$ 7,803,661</u>

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 5 – CAPITAL ASSETS – Continued**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 80,755
Public safety	57,443
Public works and streets	305,703
Parks and recreation	<u>81,945</u>
Total governmental activities depreciation expense	<u><u>\$ 525,846</u></u>
Business-type activities:	
Utility	<u><u>\$ 643,221</u></u>

**NOTE 6 – LONG-TERM LIABILITIES**

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2018.

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities:					
Compensated absences	\$ 219,952	\$ -	\$ (31,124)	\$ 188,828	\$ 141,621
Manager contract liability	22,083	6,684	-	28,767	-
Net pension and other liability postemployment benefits liability	<u>8,731,608</u>	<u>31,324</u>	<u>-</u>	<u>8,762,932</u>	<u>-</u>
Governmental activities long-term liabilities	<u><u>\$ 8,973,643</u></u>	<u><u>\$ 38,008</u></u>	<u><u>\$ (31,124)</u></u>	<u><u>\$ 8,980,527</u></u>	<u><u>\$ 141,621</u></u>
Business-type activities:					
Bonds payable	\$ 1,516,000	\$ -	\$ (363,000)	\$ 1,153,000	\$ 373,000
Compensated absences	48,767	-	(15,351)	33,416	25,062
Net pension and other liability postemployment benefits liability	<u>876,443</u>	<u>-</u>	<u>(202,753)</u>	<u>673,690</u>	<u>-</u>
Business-type activities long-term liabilities	<u><u>\$ 2,441,210</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (581,104)</u></u>	<u><u>\$ 1,860,106</u></u>	<u><u>\$ 398,062</u></u>

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 6 – LONG-TERM LIABILITIES – Continued***

***Bonds payable***

The following is a listing of bonds payable as of June 30, 2018:

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.	\$ 1,153,000
Less current portion	<u>(373,000)</u>
Total notes payable net of current portion	<u>\$ 780,000</u>

The debt service requirements to maturity are as follows:

Year	Bonds Payable	
Ending	Principal	Interest
June 30		
2019	\$ 373,000	\$ 26,185
2020	384,000	13,820
2021	396,000	-
Total	\$ 1,153,000	\$ 40,005

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, 2018**

***NOTE 7 – 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 8 – 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 9 – 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, 2018, the General Fund transferred \$43,026 and \$410,113 to the Grants and Utility Funds, respectively, to subsidize operations of the funds.

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, 2018**

***NOTE 10 – 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, 2018, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

<b>Statement of Net Position and Statement of Activities</b>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net OPEB assets	\$ 41,626	\$ 2,352	\$ 43,978
Net pension and OPEB liabilities	8,762,932	673,690	9,436,622
Deferred outflows of resources related to pension and OPEB	1,468,783	85,443	1,554,226
Deferred inflows of resources related to pension and OPEB	547,709	123,613	671,322
Pension and OPEB expense	1,055,549	(6,485)	1,049,064

The City reported \$446,655 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**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 website at [www.azasrs.gov](http://www.azasrs.gov).

**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:

	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	Highest 36 months of last 120	Highest 60 months of last 120
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.



**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

Active members are eligible for a monthly long-term disability benefit equal to two-thirds of monthly earnings. Members receiving benefits continue to earn service credit up to their normal retirement dates. Members with long-term disability commencement dates after June 30, 1999, are limited to 30 years of service or the service on record as of the effective disability date if their service is greater than 30 years.

**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, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and 0.16 percent for long-term disability) of the members’ annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.50 percent (10.90 percent for retirement, 0.44 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members’ annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 9.49 percent (9.26 percent for retirement, 0.01 percent for health insurance premium benefit, and 0.13 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS would typically fill. The City’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2018, were \$164,680, \$6,648, and \$2,414, respectively.

During fiscal year 2018, the City paid for ASRS pension and OPEB contributions as follows: 54.53 percent from the General Fund, 18.47 percent from the HURF Fund, and 27.00 percent from the Utilities Fund.

**Liability** - At June 30, 2018, the City reported the following asset and liabilities for its proportionate share of the ASRS’ net pension/OPEB asset or liability.

	<b>Net Pension/OPEB</b>
	<b>(Asset) Liability</b>
Pension	\$ 2,489,373
Health insurance premium benefit	(8,710)
Long-term disability	5,774

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

The net asset and net liabilities were measured as of June 30, 2017. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2018, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The City’s proportion of the net asset or net 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, 2017. The City’s proportions measured as of June 30, 2017, and the change from its proportions measured as of June 30, 2016, were:

	<b>Proportion</b> <b>June 30, 2017</b>	<b>Increase (decrease)</b> <b>from June 30, 2016</b>
Pension	0.01598%	-0.00262%
Health insurance premium benefit	0.01600%	0.00000%
Long-term disability	0.01593%	0.00000%

The net asset and net liabilities measured as of June 30, 2018, 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 asset and net liabilities as a result of these changes is not known.

**Expense** – For the year ended June 30, 2018, the City recognized the following pension and OPEB expense.

	<b>Pension/OPEB</b> <b>Expense</b>
Pension	(32,195)
Health insurance premium benefit	5,095
Long-term disability	3,080

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Deferred Outflows/Inflows of Resources**—At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<b>Pension</b>		<b>Health Insurance Premium Benefit</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 74,645	\$ -	\$ -
Changes of assumptions or other inputs	108,119	74,437	-	-
Net difference between projected and actual earnings on pension plan investments	17,872	-	-	9,808
Changes in proportion and differences between City contributions and proportionate share of contributions	16,721	298,064	-	7
City contributions subsequent to the measurement date	164,680	-	6,648	-
<b>Total</b>	<b>\$ 307,392</b>	<b>\$ 447,146</b>	<b>\$ 6,648</b>	<b>\$ 9,815</b>
	<b>Long-Term Disability</b>			
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>		
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 864		
Changes in proportion and differences between City contributions and proportionate share of contributions	-	1		
City contributions subsequent to the measurement date	2,414	-		
<b>Total</b>	<b>\$ 2,414</b>	<b>\$ 865</b>		

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>	<u>Long-Term Disability</u>
2019	\$ (224,193)	\$ (2,454)	(217)
2020	(26,840)	(2,454)	(216)
2021	3,862	(2,454)	(216)
2022	(57,263)	(2,453)	(216)
2023	-	-	-
Thereafter	-	-	-

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

**ASRS**

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75% for pensions/not applicable for OPEB
Inflation	3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	1994 GAM Scale BB
Healthcare cost trend rate	Not applicable

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, 2012.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

The long-term expected rate of return on ASRS plan investments was determined to be 8.70 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Arithmetic Real Rate 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>	

**Discount Rate** – The discount rate used to measure the ASRS total pension/OPEB liability was 8 percent, which is less than the long-term expected rate of return of 8.7 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 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Sensitivity of the City’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate** – The following table presents the City’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 8 percent, as well as what the City’s proportionate share of the net pension/OPEB 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:

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
<b>City's Proportionate share of the</b>			
Net pension liability	\$ 3,195,153	\$ 2,489,373	\$ 1,899,633
Net insurance premium benefit liability (asset)	14,465	(8,710)	(28,406)
Net long-term disability liability	6,905	5,774	4,816

**Plan Fiduciary Net Position** – Detailed information about the plans’ 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 agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) 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. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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](http://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, 2018**

**NOTE 10 – 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:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
<b>Retirement and Disability</b>		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 36 consecutive months of last 20 years
<b>Benefit percentage</b>		
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%	1.5% to 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	
<b>Survivor Benefit</b>		
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. The adjustments are based on inflation. 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, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents.

**Employees Covered by Benefit Terms** – At June 30, 2018, the following employees were covered by the agent plans’ benefit terms:

	<b>PSPRS Police</b>	
	<b>Pension</b>	<b>Health</b>
Inactive employees or beneficiaries currently receiving	13	13
Inactive employees entitled to but not yet receiving benefits	6	1
Active employees	10	10
<b>Total</b>	<b>29</b>	<b>24</b>

**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, 2018, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<b>Active Member- Pension</b>	<b>City-Pension</b>	<b>City-Health Insurance Premium Benefit</b>
PSPRS Police	7.65% - 11.65%	77.36%	0.00%



**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

The City’s contributions to the plans for the year ended June 30, 2018, were:

	<b>Pension</b>	<b>Health Insurance Premium Benefit</b>
PSPRS Police	\$ 408,442	\$ -

During fiscal year 2018, the City paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

**Liability** – At June 30, 2018, the City reported the following liability:

	<b>Net Pension (Asset) Liability</b>	<b>Net OPEB (Asset) Liability</b>
PSPRS Police	\$ 6,941,475	\$ (35,268)

The net assets and net liabilities were measured as of June 30, 2017, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the PSPRS net pension liabilities measured as of June 30, 2018, because of refunds of excess member contributions. The change in the City’s PSPRS net pension liabilities as a result of the refunds is not known.

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

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

**PSPRS**

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.40%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed Income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Discount Rates** – At June 30, 2017, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

**Changes in the Net Pension/OPEB Liability (Asset)**

	<b>Pension</b>		<b>Net Pension</b>
	<b>Increase (Decrease)</b>		
	<b>Total Pension</b>	<b>Plan Fiduciary Net</b>	<b>Liability (Asset) (a)</b>
	<b>Liability (a)</b>	<b>Position (b)</b>	<b>(b)</b>
Balances at June 30, 2017	\$ 8,567,856	\$ 1,972,383	\$ 6,595,473
Changes for the year			
Service Cost	123,374	-	123,374
Interest on the total liability	629,152	-	629,152
Changes of benefit terms	104,775	-	104,775
Differences between expected and actual experience in the measurement of the liability	(27,208)	-	(27,208)
Changes of assumptions or other inputs	285,779	-	285,779
Contributions-employer	-	456,574	(456,574)
Contributions-employee	-	79,281	(79,281)
Net investment income	-	236,484	(236,484)
Benefit payments, including refunds of employee	(481,711)	(481,711)	-
Administrative expense	-	(2,492)	2,492
Other changes	-	23	(23)
Net changes	634,161	288,159	346,002
Balances at June 30, 2018	\$ 9,202,017	\$ 2,260,542	\$ 6,941,475

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

	<b>Health Insurance Premium Benefit</b>		
	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net OPEB (Asset) Liability (a) - (b)</b>
Balances at June 30, 2017	\$ 165,646	\$ 203,981	\$ (38,335)
Changes for the year			
Service Cost	2,715	-	2,715
Interest on the total liability	12,245	-	12,245
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the liability	15,691	-	15,691
Changes of assumptions or other inputs	(4,167)	-	(4,167)
Contributions-employer	-	-	-
Contributions-employee	-	-	-
Net investment income	-	23,626	(23,626)
Benefit payments, including refunds of employee	(7,487)	(7,487)	-
Administrative expense	-	(209)	209
Other changes	-	-	-
Net changes	18,997	15,930	3,067
Balances at June 30, 2018	\$ 184,643	\$ 219,911	\$ (35,268)

**Sensitivity of the City’s Net Pension/OPEB Liability to Changes in the Discount Rate** – The following table presents the City’s net pension/OPEB (assets) liabilities calculated using the discount rate of 7.4 percent, as well as what the City’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	<b>1% Decrease (6.4%)</b>	<b>Current Discount Rate (7.4%)</b>	<b>1% Increase (8.4%)</b>
PSPRS Police			
Net pension (asset) liability	\$ 8,133,729	\$ 6,941,475	\$ 5,969,881
Net OPEB (asset) liability	(14,147)	(35,268)	(52,926)

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

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

**NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued**

**Expense** – For the year ended June 30, 2018, the City recognized the following pension and OPEB expense:

	<b>Pension Expense</b>		<b>OPEB Expense</b>
PSPRS Police	\$ 1,072,354	\$	730

**Deferred Outflows/Inflows of Resources** – At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<b>Pension</b>		<b>Health Insurance Premium Benefit</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	Differences between expected and actual experience	\$ 136,638	\$ 114,951	\$ 12,567
Changes of assumptions or other inputs	570,598	-	-	3,337
Net difference between projected and actual earnings on pension plan investments	109,527	88,315	-	6,893
City contributions subsequent to the measurement date	408,442	-	-	-
<b>Total</b>	<b>\$ 1,225,205</b>	<b>\$ 203,266</b>	<b>\$ 12,567</b>	<b>\$ 10,230</b>

**City of Holbrook, Arizona**  
**Notes to Financial Statements**  
**June 30, 2018**

***NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued***

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	<b>PSPRS Police</b>	
	<b>Pension</b>	<b>Health</b>
2019	\$ 346,264	\$ 571
2020	153,569	571
2021	93,602	571
2022	20,062	570
2023	-	54
Thereafter	-	-

**REQUIRED SUPPLEMENTARY INFORMATION**

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 3,140,000	\$ 3,140,000	\$ 3,431,254	\$ 291,254
Intergovernmental	1,428,314	1,428,314	1,487,201	58,887
Charges for services	209,000	209,000	191,095	(17,905)
Other revenue	600,000	600,000	95,792	(504,208)
Fines and forfeitures	153,839	153,839	53,347	(100,492)
Licenses, permits and fees	8,000	8,000	20,757	12,757
Interest	8,000	8,000	1,535	(6,465)
<b>Total revenues</b>	<u>5,547,153</u>	<u>5,547,153</u>	<u>5,280,981</u>	<u>(266,172)</u>
<b>Expenditures</b>				
Current				
General government	1,078,737	1,078,737	756,374	322,363
Public safety	2,482,561	2,482,561	2,335,998	146,563
Public works and streets	343,637	343,637	289,521	54,116
Parks and recreation	1,083,926	1,083,926	1,033,043	50,883
Welfare	84,697	84,697	76,161	8,536
Capital outlay	10,114	10,114	10,114	-
<b>Total expenditures</b>	<u>5,083,672</u>	<u>5,083,672</u>	<u>4,501,211</u>	<u>582,461</u>
Excess (deficiency) of revenues over (under) expenditures	<u>463,481</u>	<u>463,481</u>	<u>779,770</u>	<u>316,289</u>
<b>Other financing sources (uses)</b>				
Sale of assets	4,000	4,000	-	(4,000)
Transfers	(467,479)	(467,479)	(453,139)	14,340
<b>Total other financing sources (uses)</b>	<u>(463,479)</u>	<u>(463,479)</u>	<u>(453,139)</u>	<u>10,340</u>
<b>Net change in fund balances</b>	2	2	326,631	326,629
Fund balances, beginning of year	<u>1,658,785</u>	<u>1,658,785</u>	<u>1,658,785</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 1,658,787</u>	<u>\$ 1,658,787</u>	<u>\$ 1,985,416</u>	<u>\$ 326,629</u>

*See accompanying notes to budgetary comparison schedule.*



**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**HURF Fund**  
**Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 684,742	\$ 684,742	\$ 703,886	\$ 19,144
<b>Expenditures</b>				
Current				
Public works and streets	684,742	684,742	717,396	(32,654)
<b>Net change in fund balances</b>	-	-	(13,510)	(13,510)
Fund balances, beginning of year	120,281	120,281	120,281	-
<b>Fund balances, end of year</b>	<u>\$ 120,281</u>	<u>\$ 120,281</u>	<u>\$ 106,771</u>	<u>\$ (13,510)</u>

*See accompanying notes to budgetary comparison schedule.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**Grants Fund**  
**Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 1,775,300	\$ 1,775,300	\$ 445,231	\$ (1,330,069)
<b>Expenditures</b>				
Current				
Public safety	1,293,650	1,293,650	7,814	1,285,836
Parks and recreation	16,543	16,543	16,543	-
Capital outlay	465,107	465,107	465,107	-
<b>Total expenditures</b>	<u>1,775,300</u>	<u>1,775,300</u>	<u>489,464</u>	<u>1,285,836</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(44,233)</u>	<u>(44,233)</u>
<b>Other financing sources (uses)</b>				
Transfers	62,500	62,500	43,026	(19,474)
<b>Net change in fund balances</b>	62,500	62,500	(1,207)	(63,707)
Fund balances, beginning of year	<u>1,207</u>	<u>1,207</u>	<u>1,207</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 63,707</u>	<u>\$ 63,707</u>	<u>\$ -</u>	<u>\$ (63,707)</u>

*See accompanying notes to budgetary comparison schedule.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2018**

***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.

***NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS***

For the year ended June 30, 2018, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Golf Course, Fire, and Magistrate.

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of the City's Proportionate**  
**Share of the Net Pension/OPEB Liability**  
**Cost-Sharing Plans**  
**June 30, 2018**

**ASRS-Pension**

	<b>Reporting Fiscal Year</b> <b>(Measurement Date)</b>				
	<b>2018</b> <b>(2017)</b>	<b>2017</b> <b>(2016)</b>	<b>2016</b> <b>(2015)</b>	<b>2015</b> <b>(2014)</b>	<b>2014</b> <b>through</b> <b>2009</b>
City's proportion of the net pension liability	0.015980%	0.018600%	0.018330%	0.018808%	Information not available
City's proportionate share of the net pension liability	\$ 2,489,373	\$ 3,002,227	\$ 2,854,998	\$ 2,782,938	
City's covered payroll	\$ 1,510,800	\$ 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	164.77%	177.27%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

**ASRS-Health Insurance Premium Benefit**

	<b>Reporting Fiscal Year</b> <b>(Measurement Date)</b>	
	<b>2018</b> <b>(2017)</b>	<b>2017</b> <b>through</b> <b>2009</b>
City's proportion of the net OPEB (asset)	0.016000%	Information not available
City's proportionate share of the net OPEB (asset)	\$ (8,710)	
City's covered payroll	\$ 1,510,800	
City's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.58%	
Plan fiduciary net position as a percentage of the total OPEB liability	103.57%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of the City's Proportionate**  
**Share of the Net Pension/OPEB Liability**  
**Cost-Sharing Plans**  
**June 30, 2018**

**ASRS-Long-Term Disability**

	<b>Reporting Fiscal Year</b>	
	<b>(Measurement Date)</b>	
	<b>2018</b>	<b>2017</b>
	<b>(2017)</b>	<b>through</b>
		<b>2009</b>
City's proportion of the net OPEB (asset)	0.015930%	Information
City's proportionate share of the net OPEB (asset)	\$ 5,774	not available
City's covered payroll	\$ 1,510,800	
City's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	0.38%	
Plan fiduciary net position as a percentage of the total OPEB liability	84.44%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of Changes in the City's**  
**Net Pension/OPEB Liability and Related Ratios**  
**Agent Pension Plans**  
**June 30, 2018**

**PSPRS**

	Reporting Fiscal Year (Measurement Date)				2014 through 2009
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability					Information not available
Service cost	\$ 123,374	\$ 123,831	\$ 108,893	\$ 128,316	
Interest on the total pension liability	629,152	627,072	591,008	458,327	
Changes of benefit terms	104,775	(33,893)	-	219,150	
Differences between expected and actual experience in the measurement of the pension liability	(27,208)	(159,324)	251,187	302,968	
Changes of assumptions or other inputs	285,779	324,762	-	1,073,926	
Benefit payments, including refunds of employee contributions	(481,711)	(481,711)	(516,581)	(448,947)	
Net change in total pension liability	634,161	400,737	434,507	1,733,740	
Total pension liability - beginning	8,567,856	8,167,119	7,732,612	5,998,872	
Total pension liability - ending (a)	<u>\$ 9,202,017</u>	<u>\$ 8,567,856</u>	<u>\$ 8,167,119</u>	<u>\$ 7,732,612</u>	
Plan fiduciary net position					
Contributions - employer	\$ 456,574	\$ 495,281	\$ 307,328	\$ 281,536	
Contributions - employee	79,281	83,917	74,656	68,611	
Net investment income	236,484	11,026	64,270	230,716	
Benefit payments, including refunds of employee contributions	(481,711)	(481,711)	(516,581)	(448,947)	
Administrative expense	(2,492)	(1,988)	(1,927)	-	
Other changes	23	137,607	(36,229)	(144,423)	
Net change in plan fiduciary net position	288,159	244,132	(108,483)	(12,507)	
Plan fiduciary net position - beginning	1,972,383	1,728,251	1,836,734	1,849,241	
Plan fiduciary net position - ending (b)	<u>\$ 2,260,542</u>	<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>\$ 6,941,475</u>	<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	24.57%	23.02%	21.16%	23.75%	
Covered payroll	\$ 565,676	\$ 671,533	\$ 697,600	\$ 612,404	
City's net pension (asset) liability as a percentage of covered payroll	1227.11%	982.15%	923.00%	962.74%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of Changes in the City's**  
**Net Pension/OPEB Liability and Related Ratios**  
**Agent Pension Plans**  
**June 30, 2018**

**PSPRS**

	<b>Reporting Fiscal Year</b>	
	<b>(Measurement Date)</b>	
	<b>2018</b>	<b>2017</b>
	<b>(2017)</b>	<b>through</b>
	<b>2009</b>	
Total OPEB liability		
Service cost	\$ 2,715	Information
Interest on the total OPEB liability	12,245	not available
Changes of benefit terms	-	
Differences between expected and actual experience in the measurement of the OPEB liability	15,691	
Changes of assumptions or other inputs	(4,167)	
Benefit payments	(7,487)	
Net change in total OPEB liability	18,997	
Total OPEB liability - beginning	165,646	
Total OPEB liability - ending (a)	<u>\$ 184,643</u>	
Plan fiduciary net position		
Contributions - employer	\$ -	
Net investment income	23,626	
Benefit payments	(7,487)	
Administrative expense	(209)	
Other changes	-	
Net change in plan fiduciary net position	15,930	
Plan fiduciary net position - beginning	203,981	
Plan fiduciary net position - ending (b)	<u>\$ 219,911</u>	
City's net OPEB (asset) liability - ending (a) - (b)	<u>\$ (35,268)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	119.10%	
Covered payroll	\$ 565,676	
City's net OPEB (asset) liability as a percentage of covered payroll	-6.23%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of City Pension/OPEB Contributions**  
**June 30, 2018**

**ASRS-Pension**

	<b>Reporting Fiscal Year</b>					<b>2013 through 2009</b>
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	
Statutorily required contribution	\$ 164,680	\$ 167,986	\$ 183,750	\$ 183,845	\$ 181,408	Information not available
City's contributions in relation to the statutorily required contribution	<u>(164,680)</u>	<u>(167,986)</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>	<u>\$ -</u>	
City's covered payroll	<u>\$ 1,510,800</u>	<u>\$ 1,558,312</u>	<u>\$ 1,693,548</u>	<u>\$ 1,688,200</u>	<u>\$ 1,695,402</u>	
City's contributions as a percentage of covered payroll	10.90%	10.78%	10.85%	10.89%	10.70%	

**ASRS-Health Insurance Premium Benefit**

	<b>Reporting Fiscal Year</b>		<b>2016 through 2009</b>
	<b>2018</b>	<b>2017</b>	
Statutorily required contribution	\$ 6,648	\$ 8,616	Information not available
City's contributions in relation to the statutorily required contribution	<u>(6,648)</u>	<u>(8,616)</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	<u>\$ 1,510,800</u>	<u>\$ 1,558,312</u>	
City's contributions as a percentage of covered payroll	0.44%	0.55%	

*See accompanying notes to pension/OPEB plan schedules.*



**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of City Pension/OPEB Contributions**  
**June 30, 2018**

**ASRS-Long-Term Disability**

	Reporting Fiscal Year		
	2018	2017	2016 through 2009
Statutorily required contribution	\$ 2,414	\$ 2,166	Information not available
City's contributions in relation to the statutorily required contribution	(2,414)	(2,166)	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	<u>\$ 1,510,800</u>	<u>\$ 1,558,312</u>	
City's contributions as a percentage of covered payroll	0.16%	0.14%	

**PSPRS**

	Reporting Fiscal Year					2013 through 2009
	2018	2017	2016	2015	2014	
Actuarially determined contribution	\$ 408,442	\$ 456,574	\$ 495,281	\$ 307,328	\$ 281,536	Information not available
City's contributions in relation to the actuarially determined contribution	(408,442)	(456,574)	(495,281)	(307,328)	(281,536)	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 527,976</u>	<u>\$ 565,676</u>	<u>\$ 671,533</u>	<u>\$ 697,600</u>	<u>\$ 612,402</u>	
City's contributions as a percentage of covered payroll	77.36%	80.71%	73.75%	44.06%	45.97%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Schedule of City Pension/OPEB Contributions**  
**June 30, 2018**

**PSPRS**

	<u>Reporting Fiscal Year</u>		<b>2016 through 2009</b>
	<b>2018</b>	<b>2017</b>	
Actuarially determined contribution	\$ -	\$ -	Information not available
City's contributions in relation to the actuarially determined contribution	-	-	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	<u>\$ 527,976</u>	<u>\$ 565,676</u>	
City's contributions as a percentage of covered payroll	0.00%	0.00%	

*See accompanying notes to pension/OPEB plan schedules.*

**City of Holbrook, Arizona**  
**Required Supplementary Information**  
**Notes to Pension/OPEB Plan Schedules**  
**June 30, 2018**

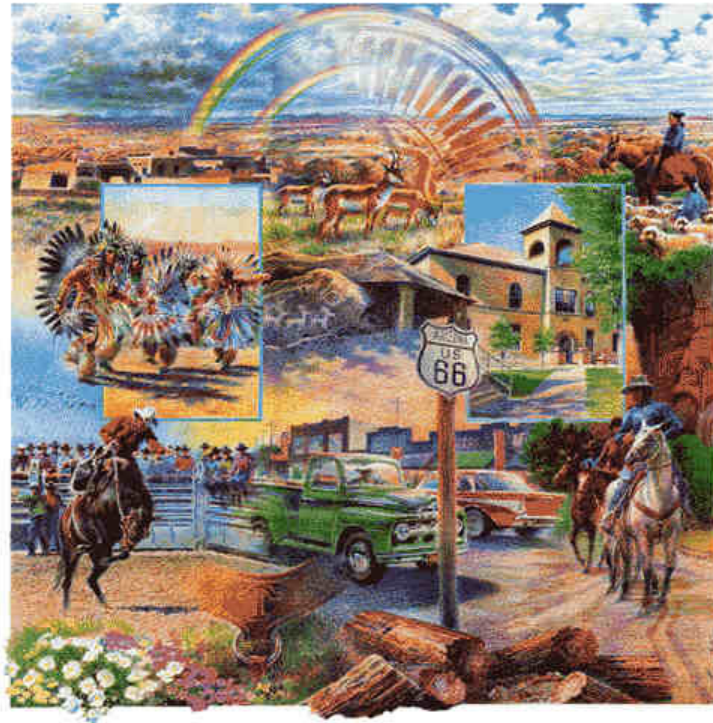
***NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES***

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:

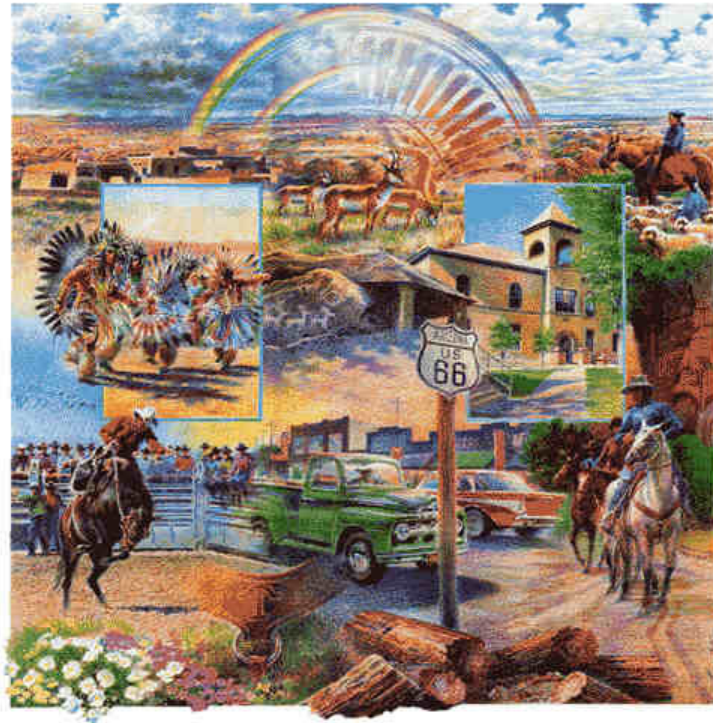
Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2016 actuarial	20 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. 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)

***NOTE 2 – FACTORS THAT AFFECT TRENDS***

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. Also, the City refunded excess employee contributions to PSPRS members. PSPRS allowed the City to reduce its actual employer contributions for the refund amounts. As a result, the City's pension contributions were less than the actuarially or statutorily determined contributions for 2018.



**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 the City of Holbrook, Arizona, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Holbrook, Arizona's basic financial statements and have issued our report thereon dated December 26, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the City of Holbrook, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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*.

### **The City of Holbrook, Arizona's Response to Findings**

The 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. The 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 26, 2018



**City of Holbrook, Arizona**  
**Schedule of Findings and Responses**  
**June 30, 2018**

**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, 2018**

***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.