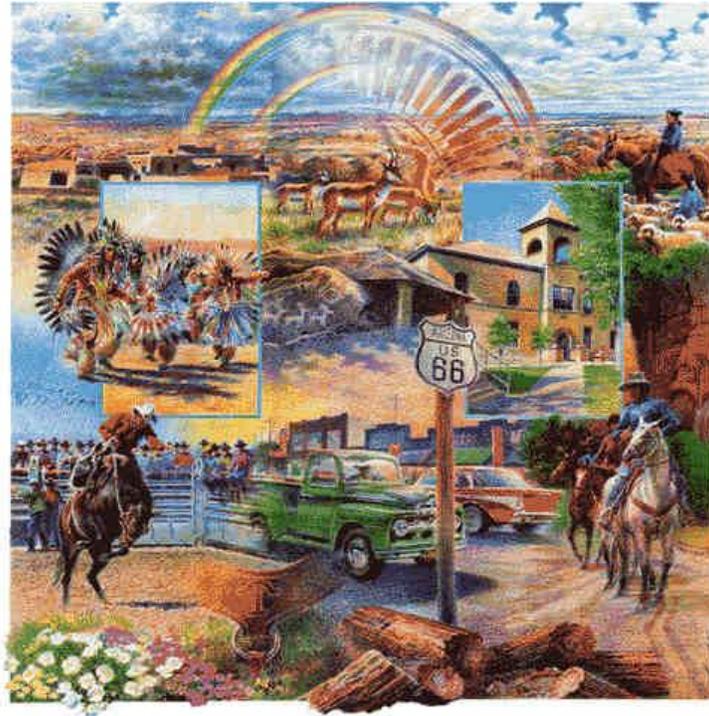


CITY OF HOLBROOK, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2015

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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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund

of the City of Holbrook, Arizona, as of June 30, 2015, 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, 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement Nos. 68 and 71. 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 (pgs 3 to 10), budgetary comparison schedules (pgs 51 to 53), Schedule of the City’s Proportionate Share of the Net Pension Liability – Cost-Sharing Pension Plans (pg 55), Schedule of Changes in the City’s Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans (pg 56), Schedule of City Pension Contributions (pg 57), and Schedule of Agent OPEB Plans’ Funding Progress (pg 59) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of 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. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.



November 13, 2015

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2015

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, 2015. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total governmental fund balances \$2,030,219.
- Total General Fund revenues exceeded total General Fund expenditures by \$949,913.
- Transferred \$610,046 from the General Fund to HURF for road reconstruction.
- Fair Market Value of Investments as of June 30, 2015 was \$593,091.
- 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, 2015

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, 2015

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 \$8.8 million as of June 30, 2015 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	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$ 2,484,028	\$ 2,527,609	\$ (540,484)	\$ 647,376	\$ 1,943,544	\$ 3,174,985
Capital assets	7,613,041	7,046,209	9,712,694	10,391,121	17,325,735	17,437,330
Total assets	<u>10,097,069</u>	<u>9,573,818</u>	<u>9,172,210</u>	<u>11,038,497</u>	<u>19,269,279</u>	<u>20,612,315</u>
Deferred outflows of resources	<u>1,797,190</u>	<u>430,407</u>	<u>178,145</u>	<u>65,780</u>	<u>1,975,335</u>	<u>496,187</u>
Current liabilities	524,345	476,222	607,368	1,542,503	1,131,713	2,018,725
Non-current liabilities	7,922,090	6,170,336	2,742,750	2,236,919	10,664,840	8,407,255
Total liabilities	<u>8,446,435</u>	<u>6,646,558</u>	<u>3,350,118</u>	<u>3,779,422</u>	<u>11,796,553</u>	<u>10,425,980</u>
Deferred inflows of resources	<u>415,092</u>	<u>-</u>	<u>149,134</u>	<u>-</u>	<u>564,226</u>	<u>-</u>
Net position:						
Net investment in capital assets	7,613,041	7,046,209	7,463,439	7,469,121	15,076,480	14,515,330
Unrestricted	(4,580,309)	(3,688,542)	(1,612,336)	(210,046)	(6,192,645)	(3,898,588)
Total net position	<u>\$ 3,032,732</u>	<u>\$ 3,357,667</u>	<u>\$ 5,851,103</u>	<u>\$ 7,259,075</u>	<u>\$ 8,883,835</u>	<u>\$ 10,616,742</u>

Governmental Activities

The cost of all governmental activities this year was \$6,126,818. As shown on the Statement of Activities, \$255,199 of this cost was paid for by those who directly benefited from the programs; \$915,143 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 \$1,170,342. General taxes, state revenue sharing and investment earnings totaled \$5,041,050.

The City's programs include: general government, public safety, public works and streets, parks and recreation, and welfare. Each programs net cost (total cost less revenues generated by the activities) is presented below. 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, 2015

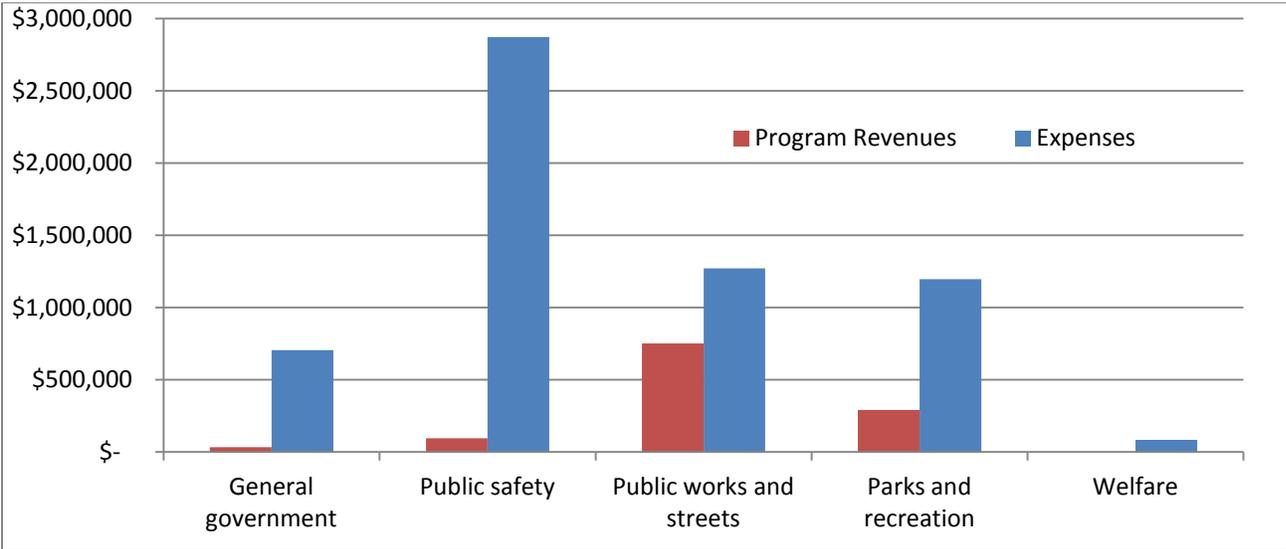
CITY OF HOLBROOK, ARIZONA
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 255,199	\$ 238,483	\$ 1,758,373	\$ 1,818,037	\$ 2,013,572	\$ 2,056,520
Operating grants and contributions	905,193	724,611	-	-	905,193	724,611
Capital grants and contributions	9,950	78,073	-	-	9,950	78,073
General revenues						
Local taxes	3,643,622	3,464,719	-	-	3,643,622	3,464,719
State shared revenues	1,339,676	1,261,218	-	-	1,339,676	1,261,218
Investment earnings	6,869	11,831	-	-	6,869	11,831
Miscellaneous	50,883	45,771	-	-	50,883	45,771
Gain (loss) on disposal of capital assets	-	(62,486)	-	14,212	-	(48,274)
Total revenues	6,211,392	5,762,220	1,758,373	1,832,249	7,969,765	7,594,469
Expenses						
General government	704,597	717,539	-	-	704,597	717,539
Public safety	2,871,510	984,300	-	-	2,871,510	984,300
Public works and streets	1,271,257	2,090,235	-	-	1,271,257	2,090,235
Parks and recreation	1,195,799	1,183,167	-	-	1,195,799	1,183,167
Welfare	83,655	75,400	-	-	83,655	75,400
Utilities	-	-	2,782,527	2,807,717	2,782,527	2,807,717
Total expenses	6,126,818	5,050,641	2,782,527	2,807,717	8,909,345	7,858,358
Change in net position before transfers	84,574	711,579	(1,024,154)	(975,468)	(939,580)	(263,889)
Transfers	(409,509)	(433,038)	409,509	433,038	-	-
Change in net position	(324,935)	278,541	(614,645)	(542,430)	(939,580)	(263,889)
Net position, beginning of year - restated	3,357,667	3,079,126	6,465,748	7,008,178	9,823,415	10,087,304
Net position, end of year	\$ 3,032,732	\$ 3,357,667	\$ 5,851,103	\$ 6,465,748	\$ 8,883,835	\$ 9,823,415

**City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2015**

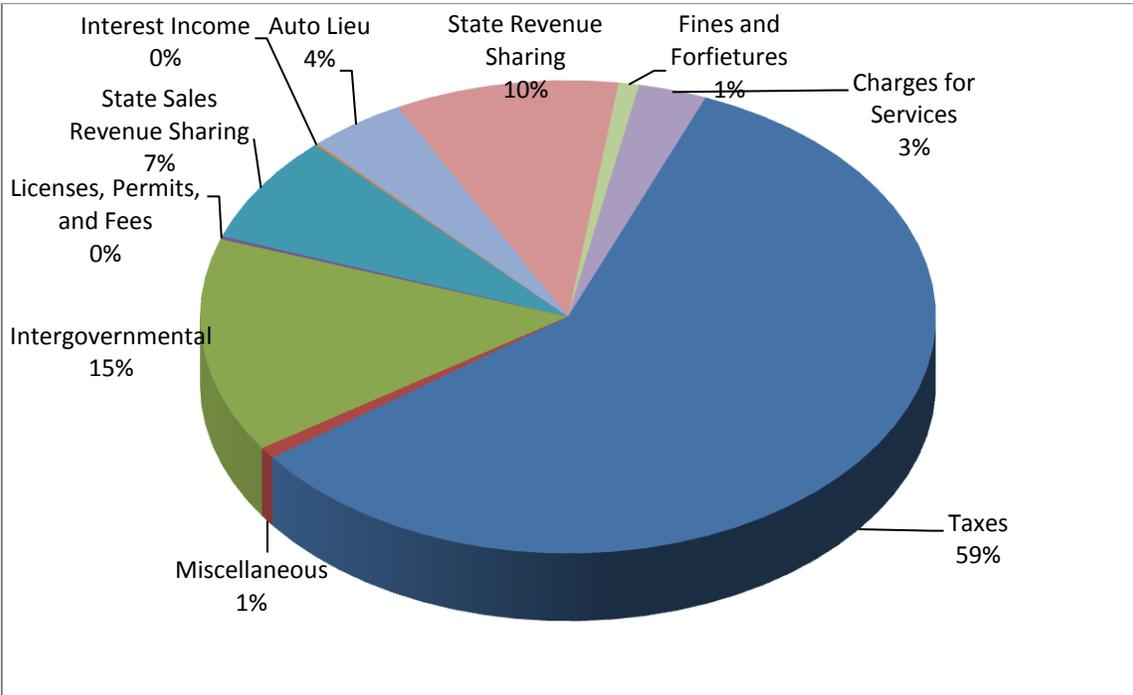
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all government activities.

Expenses and Program Revenues – Governmental Activities



The following shows revenues by source for all governmental activities:

Revenues by Source – Governmental Activities



City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2015

Business-type Activities

Net position of the business-type activities at June 30, 2015, as reflected in the Statement of Net Position was \$5,851,103. The cost of providing all business-type activities this year was \$2,782,527. As shown in the Statement of Activities, the amounts paid by users of the system were \$1,758,373. Transfers in from governmental activities were \$409,509. Net position decreased by \$614,645.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City of Holbrook's governmental funds reported combined ending fund balances of \$2,030,219, a decrease of \$68,867 in comparison with the prior year. \$806,363 of the ending fund balance constitutes unassigned fund balance, which is available for new spending at the government's discretion. \$1,223,856 of the ending fund balance are currently unspendable because they are not in spendable form such as fund balance associated with inventories, and long-term loans receivable. None of the fund balance is restricted or assigned meaning it has not 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 \$791,530. 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 45.8% and 18% respectively of total General Fund expenditures excluding transfers. During the year, the City of Holbrook's General Fund balance decreased by \$57,870.

The Highway User Revenue Fund has a total fund balance of \$(11,973). The net increase in the fund balance during the current year was \$30,860. 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 \$5,851,103 consisting of \$7,463,439 invested in capital assets, net of related debt and \$(1,612,336) in unrestricted net position.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2015

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 \$5,348,008 were more than budgeted revenues of \$5,459,880 by \$111,872 and the General Fund's expenditures of \$4,398,095 were less than budgeted expenditures of \$4,484,396 by \$86,301.

HURF Revenues of \$632,238 were more than budgeted revenues of \$607,784 by \$24,454 and expenditures of \$1,211,424 were less than budgeted expenditures of \$1,327,972 by \$116,548. This is a direct reflection of management using transfers from the General Fund to HURF to continue improving roads and infrastructure as street improvements far outweigh the HURF revenues.

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 2015, net capital assets of the government activities totaled \$7,610,164 and the net capital assets of the business-type activities totaled \$9,712,694. Combined capital asset additions for fiscal year 2015 totaled \$1,034,476. Depreciation on capital assets for both government activities and business-type activities is recognized in the government-wide financial statements.

Debt

During the year the City implemented GASB 68 which requires the City to report net pension liabilities as long-term liabilities in governmental activities and business-type activities. At year-end, the City had \$8,085,691 recorded in the governmental activities of which \$7,825,985 is related to a net pension liability. The City had \$3,146,509 in the business-type activities of which \$2,218,000 is related to bond indebtedness and \$852,831 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 increased by \$1,762,617 which is almost entirely pension liability.

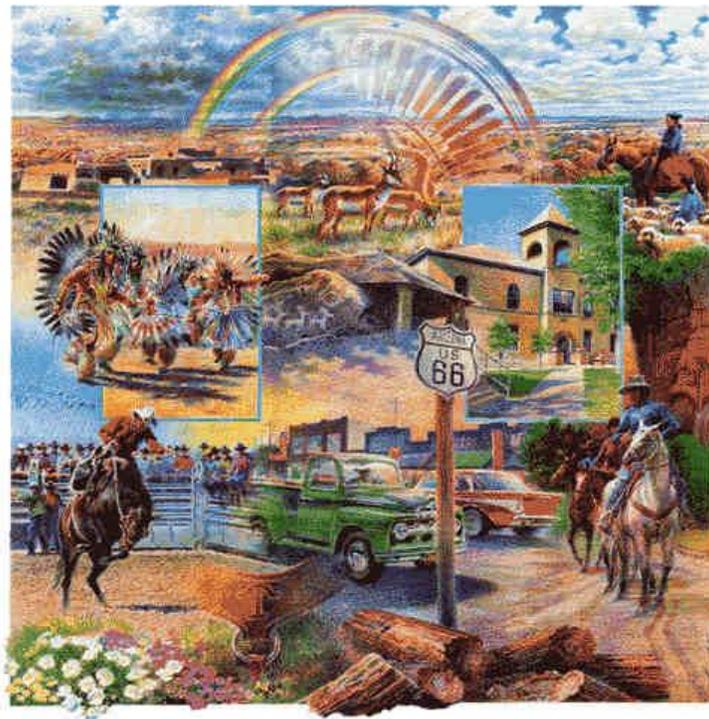
City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2015

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's budget for fiscal year 2015/2016, 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 6.1% increase from the level of fiscal year 2014/2015.

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.



City of Holbrook, Arizona
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 817,527	\$ 50	\$ 817,577
Cash and cash equivalents, restricted	-	450,964	450,964
Taxes receivable	23,015	-	23,015
Due from other governments	437,654	-	437,654
Receivables, net	67	155,645	155,712
Inventory	12,616	46,006	58,622
Interactivity balances	1,193,149	(1,193,149)	-
Capital assets, not being depreciated	914,945	282,822	1,197,767
Capital assets, being depreciated, net	6,698,096	9,429,872	16,127,968
Total assets	10,097,069	9,172,210	19,269,279
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	1,797,190	178,145	1,975,335
LIABILITIES			
Accounts payable	215,211	77,516	292,727
Accrued expenses	145,533	22,129	167,662
Interest payable	-	31,255	31,255
Customer deposits	-	72,709	72,709
Noncurrent liabilities			
Due within 1 year	163,601	403,759	567,360
Due in more than 1 year	7,922,090	2,742,750	10,664,840
Total liabilities	8,446,435	3,350,118	11,796,553
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	415,092	149,134	564,226
NET POSITION			
Net investment in capital assets	7,613,041	7,463,439	15,076,480
Unrestricted (deficit)	(4,580,309)	(1,612,336)	(6,192,645)
Total net position	\$ 3,032,732	\$ 5,851,103	\$ 8,883,835

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Activities
Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 704,597	\$ 12,167	\$ 20,662	\$ -	\$ (671,768)	\$ -	\$ (671,768)
Public safety	2,871,510	70,301	25,379	-	(2,775,830)	-	(2,775,830)
Public works and streets	1,271,257	58,691	682,239	9,902	(520,425)	-	(520,425)
Parks and recreation	1,195,799	114,040	176,913	48	(904,798)	-	(904,798)
Welfare	83,655	-	-	-	(83,655)	-	(83,655)
Total governmental activities	6,126,818	255,199	905,193	9,950	(4,956,476)	-	(4,956,476)
Business-type activities							
Utilities	2,782,527	1,758,373	-	-	-	(1,024,154)	(1,024,154)
Total business-type activities	2,782,527	1,758,373	-	-	-	(1,024,154)	(1,024,154)
Total primary government	\$ 8,909,345	\$ 2,013,572	\$ 905,193	\$ 9,950	(4,956,476)	(1,024,154)	(5,980,630)
General revenue:							
Taxes							
Sales taxes					3,527,284	-	3,527,284
Property taxes					346	-	346
Franchise taxes					115,992	-	115,992
State sales tax revenue sharing					461,787	-	461,787
Auto lieu tax revenue sharing					266,192	-	266,192
State revenue sharing					611,697	-	611,697
Interest income					6,869	-	6,869
Miscellaneous					50,883	-	50,883
Transfers:					(409,509)	409,509	-
Total general revenues and transfers					4,631,541	409,509	5,041,050
Change in net position					(324,935)	(614,645)	(939,580)
Net position, beginning of year, as restated					3,357,667	6,465,748	9,823,415
Net position, end of year					\$ 3,032,732	\$ 5,851,103	\$ 8,883,835

See accompanying notes to financial statements.

City of Holbrook, Arizona
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 817,527	\$ -	\$ -	\$ 817,527
Taxes receivable	23,015	-	-	23,015
Due from other governments	303,832	60,744	73,078	437,654
Accounts receivable, net	67	-	-	67
Inventory	12,616	-	-	12,616
Due from other funds	1,211,240	-	-	1,211,240
	Total assets	60,744	73,078	2,502,119
LIABILITIES				
Accounts payable	159,259	50,952	5,000	215,211
Accrued expenses	132,701	12,620	212	145,533
Due to other funds	-	9,145	8,946	18,091
	Total liabilities	72,717	14,158	378,835
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	60,951	-	32,114	93,065
FUND BALANCES				
Unspendable	1,223,856	-	-	1,223,856
Unassigned	791,530	(11,973)	26,806	806,363
	Total fund balances	(11,973)	26,806	2,030,219
	Total liabilities, deferred inflows of resources, and fund balances	\$ 60,744	\$ 73,078	\$ 2,502,119

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, 2015

Fund balances--total governmental funds		\$ 2,030,219
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		7,613,041
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		93,065
Long-term liabilities, such as net pension liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as a liability in the funds.		
Manager contract	(41,571)	
Compensated absences	(218,135)	
Net pension liability	<u>(7,825,985)</u>	
		(8,085,691)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		<u>1,382,098</u>
Net position of governmental activities		<u><u>\$ 3,032,732</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, 2015

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Fund
Revenues				
Taxes	\$ 3,647,937	\$ -	\$ -	\$ 3,647,937
Intergovernmental	1,389,676	632,238	231,348	2,253,262
Charges for services	187,034	-	-	187,034
Fines and forfeitures	55,998	-	-	55,998
Other revenue	48,327	-	-	48,327
Interest	6,869	-	-	6,869
Licenses, permits and fees	12,167	-	-	12,167
Total revenues	<u>5,348,008</u>	<u>632,238</u>	<u>231,348</u>	<u>6,211,594</u>
Expenditures				
Current				
General government	592,802	-	10,519	603,321
Public safety	2,126,525	-	40,947	2,167,472
Public works and streets	306,832	644,138	-	950,970
Parks and recreation	1,048,343	-	15,923	1,064,266
Welfare	79,140	-	-	79,140
Capital outlay	244,453	567,286	205,816	1,017,555
Total expenditures	<u>4,398,095</u>	<u>1,211,424</u>	<u>273,205</u>	<u>5,882,724</u>
Excess (deficiency) of revenues over (under) expenditures	<u>949,913</u>	<u>(579,186)</u>	<u>(41,857)</u>	<u>328,870</u>
Other financing sources (uses)				
Sale of assets	11,772	-	-	11,772
Transfers	(1,019,555)	610,046	-	(409,509)
Total other financing sources (uses)	<u>(1,007,783)</u>	<u>610,046</u>	<u>-</u>	<u>(397,737)</u>
Net change in fund balances	(57,870)	30,860	(41,857)	(68,867)
Fund balances, beginning of year	<u>2,073,256</u>	<u>(42,833)</u>	<u>68,663</u>	<u>2,099,086</u>
Fund balances, end of year	<u>\$ 2,015,386</u>	<u>\$ (11,973)</u>	<u>\$ 26,806</u>	<u>\$ 2,030,219</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, 2015

Net change in fund balances--total governmental funds		\$ (68,867)
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	1,017,555	
Depreciation expense	<u>(450,723)</u>	566,832
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Current year payments on installment land sales	(11,772)	
Decrease in unavailable grant revenues	(202)	(11,974)
City pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the City's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities		
City pension contributions	435,986	
PSPRS transfer to OPEB plan	(172,541)	
Pension expense	<u>(1,043,795)</u>	(780,350)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Increase in compensated absences	(14,484)	
Increase in manager contract liability	<u>(16,092)</u>	(30,576)
Change in net position of governmental activities		<u><u>\$ (324,935)</u></u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2015

	Business-type Activities--Enterprise Funds	
	Utility	Utility
	Fund June 30, 2015	Fund June 30, 2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50	\$ 50
Cash and cash equivalents, restricted	450,964	444,121
Accounts receivable, net	155,645	155,883
Inventory	46,006	46,006
Total current assets	652,665	646,060
Noncurrent assets		
Capital assets, net of accumulated depreciation, where applicable	9,712,694	10,391,121
Total assets	10,365,359	11,037,181
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	178,145	65,780
LIABILITIES		
Current liabilities		
Accounts payable	77,516	96,477
Accrued expenses	22,129	23,666
Unearned revenue	-	-
Accrued interest payable	31,255	34,162
Current portion of long-term debt	403,759	398,759
Customer deposits	72,709	67,959
Due to other funds	1,193,149	920,164
Total current liabilities	1,800,517	1,541,187
Noncurrent liabilities		
Compensated absences	18,919	18,919
Notes payable	1,871,000	2,218,000
Net pension liability	852,831	859,107
Total noncurrent liabilities	2,742,750	3,096,026
Total liabilities	4,543,267	4,637,213
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	149,134	-
NET POSITION		
Net investment in capital assets	7,463,439	7,796,959
Unrestricted (deficit)	(1,612,336)	(1,331,211)
Total net position	\$ 5,851,103	\$ 6,465,748

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, 2015

	Business-type Activities--Enterprise Funds	
	Utility Fund	Utility Fund
	June 30, 2015	June 30, 2014
Operating revenues		
Charges for services	\$ 1,716,676	\$ 1,746,838
Miscellaneous	41,697	71,199
Total operating revenues	<u>1,758,373</u>	<u>1,818,037</u>
Operating expenses		
Personnel	886,514	892,868
Service, supplies and other	1,138,156	1,146,919
Depreciation	695,348	699,608
Total operating expenses	<u>2,720,018</u>	<u>2,739,395</u>
Operating income (loss)	<u>(961,645)</u>	<u>(921,358)</u>
Nonoperating revenues (expenses)		
Gain on sale of assets	-	14,212
Interest expense	(62,509)	(68,322)
Total nonoperating revenues (expenses)	<u>(62,509)</u>	<u>(54,110)</u>
Income (loss) before contributions, gains, losses, and transfers	(1,024,154)	(975,468)
Transfers in	409,509	433,038
Increase (decrease) in net position	(614,645)	(542,430)
Total net position, beginning of year, as restated	6,465,748	7,008,178
Total net position, end of year	<u>\$ 5,851,103</u>	<u>\$ 6,465,748</u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2015

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2015	Utility Fund June 30, 2014
	Cash flows from operating activities:	
Receipts from customers	\$ 1,763,361	\$ 1,833,612
Payments to suppliers and providers of goods and services	(1,428,767)	(1,513,505)
Payments to employees	(585,908)	(620,924)
Net cash provided (used) by operating activities	(251,314)	(300,817)
Cash flows from noncapital financing activities:		
Borrowings from other funds	272,985	294,843
Net transfers (to) from other funds	409,509	433,038
Net cash provided (used) by noncapital financing activities	682,494	727,881
Cash flows from capital and related financing activities:		
Proceeds from sale of assets	-	14,212
Purchase of capital assets	(16,921)	(32,270)
Principal paid on notes payable	(342,000)	(362,000)
Interest paid	(65,416)	(71,037)
Net cash provided (used) by capital and related financing activities	(424,337)	(451,095)
Net increase (decrease) in cash and cash equivalents	6,843	(24,031)
Cash and cash equivalents, beginning of year	444,171	468,202
Cash and cash equivalents, end of year	\$ 451,014	\$ 444,171
Cash and cash equivalents	\$ 50	\$ 50
Cash and cash equivalents, restricted	450,964	444,121
Cash and cash equivalents, end of year	\$ 451,014	\$ 444,171

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2015
(Continued)

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2015	Utility Fund June 30, 2014
	Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (961,645)	\$ (921,358)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	695,348	699,608
Pension expense	86,116	65,780
Employer pension contributions	(55,623)	(65,780)
(Increase) decrease in:		
Accounts receivable	238	16,941
Increase (decrease) in:		
Accounts payable	(18,961)	(92,635)
Accrued expenses	(1,537)	3,481
Customer deposits	4,750	(1,366)
Compensated absences payable	-	(5,488)
Net cash provided (used) by operating activities	\$ (251,314)	\$ (300,817)

See accompanying notes to financial statements.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Holbrook, Arizona, conform to generally accepted accounting principles applicable to governments. A summary of the City's significant accounting policies are as follows:

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Fund financial statements – provide information about the City’s funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. For the year ended June 30, 2015 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/LTAF 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, 2015

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 purposes of its statement of cash flows, the City considers only those highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

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, 2015, for the Utility Fund was \$149,568.

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. Donated assets are reported at estimated fair value at the time received.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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 consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

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

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balances to be properly reported within one of the fund balance categories listed below:

1. *Nonspendable* fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact such as fund balance associated with inventories, prepaids, long-term loans and notes receivable (unless the proceeds are restricted, committed, or assigned),
2. *Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution provisions or enabling legislation, or external resource providers,
3. *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the City Council,
4. *Assigned* fund balances are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed, and
5. *Unassigned* fund balance is the residual classification for the City's governmental funds and includes all spendable amounts not contained in other classifications.

The City's policy for committed fund balances is through formal City resolutions passed through the elected city council. The process of rescinding a committed fund balance requires the same process

The City's policy for assigned fund balances is through motions passed by the elected city council. Assigned fund balances do not require a formal resolution.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

When expenditures incur for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, the City's policy is to apply the expenditure first to restricted, and then to unrestricted in the following order of committed, assigned, and then unassigned.

M. Impact of Recently Issued Accounting Principles

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City implemented this standard during this fiscal period. See the subsequent notes for further details.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The City implemented this standard during this fiscal period. See the subsequent notes for further details.

N. Pensions

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS

Arizona Revised Statutes (A.R.S.) authorize the City to invest public monies in the State Treasurer’s investment pool, U.S. Treasury obligations, specified state and local government bonds, and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

The City has not formally adopted deposit and investment policies that limit the City’s allowable deposits or investments and which address the specific types of risk to which the City is exposed such as interest rate risk, credit risk, and custodial credit risk.

Deposits – At June 30, 2015, the carrying amount of the City’s total nonpooled cash in bank was \$674,530, and the bank balance was \$627,664. 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.

Restricted cash – Restricted cash in the Utility Fund consists of \$72,709 reserved for refundable customer deposits and \$378,255 reserved for debt service.

Investments – At June 30, 2015, the investments consisted of the following:

	<u>Reported Amount</u>	<u>Fair Value</u>	<u>Rating</u>
Investment in State Treasurer's investment pool	<u>\$ 593,091</u>	<u>\$ 593,091</u>	<u>Unrated</u>

The State Board of Investment provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due at June 30, 2015 from other governments in the Governmental Funds consisted of the following:

Description	Governmental Activities
<u>State of Arizona:</u>	
City sales tax	\$ 192,284
Highway user revenue	60,744
State sales tax	40,223
Grants	73,078
Vehicle license tax	12,515
<u>Navajo County:</u>	
Property tax	39
<u>Other Governments:</u>	<u>58,771</u>
	<u><u>\$ 437,654</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, were as follows:

	<u>Governmental activities</u>			
	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land	\$ 914,945	-	-	\$ 914,945
Total capital assets not being depreciated	<u>914,945</u>	<u>-</u>	<u>-</u>	<u>914,945</u>
Capital assets being depreciated:				
Buildings	4,898,337	322,395	-	5,220,732
Furniture, equipment and vehicles	3,556,026	92,830	-	3,648,856
Infrastructure - roads	4,302,661	567,286	-	4,869,947
Runway and taxiway	937,154	-	-	937,154
Improvements - other	81,322	35,044	-	116,366
Total	<u>13,775,500</u>	<u>1,017,555</u>	<u>-</u>	<u>14,793,055</u>
Less accumulated depreciation for:				
Buildings	(2,992,524)	(109,687)	-	(3,102,211)
Furniture, equipment and vehicles	(2,856,201)	(133,511)	-	(2,989,712)
Infrastructure - roads	(1,017,224)	(193,078)	-	(1,210,302)
Runway and taxiway	(761,277)	(10,220)	-	(771,497)
Improvements - other	(17,010)	(7,104)	-	(24,114)
Total	<u>(7,644,236)</u>	<u>(453,600)</u>	<u>-</u>	<u>(8,097,836)</u>
Total capital assets being depreciated, net	<u>6,131,264</u>	<u>563,955</u>	<u>-</u>	<u>6,695,219</u>
Governmental activities capital assets, net	<u>\$ 7,046,209</u>	<u>\$ 563,955</u>	<u>\$ -</u>	<u>\$ 7,610,164</u>
	<u>Business-type activities</u>			
	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Capital assets not being depreciated:				
Land and water rights	\$ 282,822	-	-	\$ 282,822
Total capital assets not being depreciated	<u>282,822</u>	<u>-</u>	<u>-</u>	<u>282,822</u>
Capital assets being depreciated:				
Utility systems	30,985,951	-	-	30,985,951
Furniture, equipment and vehicles	1,727,571	16,921	-	1,744,492
Total	<u>32,713,522</u>	<u>16,921</u>	<u>-</u>	<u>32,730,443</u>
Less accumulated depreciation for:				
Utility systems	(21,311,893)	(582,760)	-	(21,894,653)
Furniture, equipment and vehicles	(1,293,330)	(112,588)	-	(1,405,918)
Total	<u>(22,605,223)</u>	<u>(695,348)</u>	<u>-</u>	<u>(23,300,571)</u>
Total capital assets being depreciated, net	<u>10,108,299</u>	<u>(678,427)</u>	<u>-</u>	<u>9,429,872</u>
Business-type activities capital assets, net	<u>\$ 10,391,121</u>	<u>\$ (678,427)</u>	<u>\$ -</u>	<u>\$ 9,712,694</u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 50,046
Public safety	49,735
Public works and streets	269,896
Parks and recreation	<u>81,046</u>
 Total governmental activities depreciation expense	 <u><u>\$ 450,723</u></u>
 Business-type activities:	
Utility	<u><u>\$ 695,348</u></u>

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2015.

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Governmental activities:					
Compensated absences	\$ 203,651	\$ 14,484	\$ -	\$ 218,135	\$ 163,601
Manager contract liability	25,479	16,092	-	41,571	-
Net pension liability	<u>6,093,944</u>	<u>1,732,041</u>	<u>-</u>	<u>7,825,985</u>	<u>-</u>
Governmental activities long-term liabilities	<u><u>\$ 6,323,074</u></u>	<u><u>\$ 1,762,617</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,085,691</u></u>	<u><u>\$ 163,601</u></u>
Business-type activities:					
Bonds payable	\$ 2,560,000	\$ -	\$ (342,000)	\$ 2,218,000	\$ 347,000
Compensated absences	75,678	-	-	75,678	56,759
Net pension liability	<u>859,107</u>	<u>-</u>	<u>(6,276)</u>	<u>852,831</u>	<u>-</u>
Business-type activities long-term liabilities	<u><u>\$ 3,494,785</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (348,276)</u></u>	<u><u>\$ 3,146,509</u></u>	<u><u>\$ 403,759</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 5 – LONG-TERM LIABILITIES – Continued

Bonds payable

The following is a listing of bonds payable as of June 30, 2015:

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.	\$	2,218,000
	Less current portion	<u>(347,000)</u>
	Total notes payable net of current portion	<u><u>\$ 1,871,000</u></u>

The debt service requirements to maturity are as follows:

Year Ending June 30	Bonds Payable	
	Principal	Interest
2016	\$ 347,000	\$ 55,292
2017	355,000	46,807
2018	363,000	37,151
2019	373,000	26,185
2020	384,000	13,820
2021	396,000	-
Total	<u>\$ 2,218,000</u>	<u>\$ 179,255</u>

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 6 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City carries commercial insurance for all such risks of loss, including workers' compensation and employees' health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – CONTINGENCIES

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

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund transfers – During the course of normal operations, the City has transactions between funds that include expenditures and transfers of resources primarily to provide services. During the year ended June 30, 2015, the General Fund transferred \$610,046 to the HURF/LTAF Fund to cover street improvements. The General Fund also transferred \$409,509 to the Utility Fund to subsidize operations of the fund.

Interfund balances – During the course of normal operations, the City's General Fund has loaned the HURF/LTAF Fund, Grants Fund, and 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, 2015

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	Governmental Activities	Business-type Activities	Utilities Fund
Net position as previously reported at June 30, 2014	\$ 9,021,204	\$ 7,259,075	\$ 7,259,075
Prior period adjustments- implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(6,093,944)	(859,107)	(859,107)
Deferred outflows-City contributions made during fiscal year 2014	430,407	65,780	65,780
Total prior period adjustment	(5,663,537)	(793,327)	(793,327)
Net position, as restated, July 1, 2014	\$ 3,357,667	\$ 6,465,748	\$ 6,465,748

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

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, 2015, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net pension assets	\$ -	\$ -	\$ -
Net pension liabilities	7,825,985	852,831	8,678,816
Deferred outflows of resources	1,797,190	178,145	1,975,335
Deferred inflows of resources	415,092	149,134	564,226
Pension expense	1,043,795	86,116	1,129,911

The City reported \$460,538 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

*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 survivor benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

2015, were \$218,162. The City’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2015	\$1,471	\$1,936
2014	1,288	3,893
2013	1,122	3,636

During fiscal year 2015, the City paid for ASRS pension and OPEB contributions as follows: 57.92 percent from the General Fund, 11.43 percent from the HURF Fund, and 30.65 percent from the Utilities Fund.

Pension Liability – At June 30, 2015, the City reported a liability of \$2,782,938 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2013, to the measurement date of June 30, 2014. The City’s proportion of the net pension liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2014. The City’s proportion measured as of June 30, 2014, was .018808 percent, which was an increase of .0019450 percent from its proportion measured as of June 30, 2013.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS

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

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

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.50%
Commodities	4%	4.75%
Total	<u>100%</u>	

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's proportionate share of the net pension liability	\$ 3,517,491	\$ 2,782,938	\$ 2,384,406

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

B. Public Safety Personnel Retirement System

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

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

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

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:

PSPRS

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. 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, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS	<u>PSPRS Police</u>
Inactive employees or beneficiaries currently receiving benefits	14
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>13</u>
Total	<u><u>30</u></u>

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2015, are indicated below. Rates are a percentage of active members’ annual covered payroll.

PSPRS	<u>PSPRS Police</u>
Active Members - Pension	11.05%
City	
Pension	44.52%
Health insurance premium benefit	1.60%

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS	
Pension	<u>PSPRS Police</u>
Contributions Made	\$ 311,595
Health Insurance Premium Benefit	
Annual OPEB cost	11,908
Contributions made	11,908

During fiscal year 2015, the City paid for 100 percent of the PSPRS pension and OPEB from the General Fund.

Pension Liability (Asset) – At June 30, 2015, the City reported the following net pension liabilities (and asset):

PSPRS	
	<u>Net Pension Liability</u> <u>(Asset)</u>
PSPRS Police	\$ 5,895,878

The net pension liabilities (and asset) were measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions:

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-80%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

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

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

PSPRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed Income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private Equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	<u>100%</u>	

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	PSPRS Police
Discount rates	7.85%

The projection of cash flows used to determine the PSPRS discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

PSPRS	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	5,998,872	1,849,241	4,149,631
Changes for the year			
Service Cost	128,316	-	128,316
Interest on the total pension liability	458,327	-	458,327
Changes of benefit terms	219,150	-	219,150
 Differences between expected and actual experience in the measurement of the pension liability	 302,968	 -	 302,968
Changes of assumptions or other inputs	1,073,926	-	1,073,926
Contributions-employer	-	281,536	(281,536)
Contributions-employee	-	68,611	(68,611)
Net investment income	-	230,716	(230,716)
Benefit payments, including refunds of employee contributions	(448,947)	(448,947)	-
Other changes	-	(144,423)	144,423
Net changes	1,733,740	(12,507)	1,746,247
Balances at June 30, 2015	7,732,612	1,836,734	5,895,878

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	\$ 6,819,455	\$ 5,895,878	\$ 5,129,994

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

Pension Expense – For the year ended June 30, 2015, the City recognized the following pension expense:

	<u>Pension Expense</u>
PSPRS Police	\$ 848,898

Pension Deferred Outflows/Inflows of Resources – At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 238,173	\$ -
Changes of assumptions or other inputs	844,249	-
Net difference between projected and actual earnings on pension plan investments	-	77,576
City contributions subsequent to the measurement date	311,595	-
Total	<u>\$ 1,394,017</u>	<u>\$ 77,576</u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PSPRS

	PSPRS Police
Year ended June 30,	
2016	\$ 275,079
2017	275,079
2018	275,078
2019	179,610
2020	-
Thereafter	-

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

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

Projections of benefits are based on (1) the plans as the City and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The following

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5%
Wage growth	4.5%

Agent plan OPEB trend information – Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2015	\$ 11,908	1.60%	\$ -
2014	11,458	1.54%	(88,314)
2013	12,637	1.63%	126,376

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2015

NOTE 10 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

PSPRS

	<u>PSPRS Police</u>	
Actuarial value of assets (a)	\$	202,543
Actuarial accrued liability (b)	\$	114,229
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$	(88,314)
Funded ratio (a)/(b)		177.31%
Annual covered payroll (c)	\$	612,402
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) - (a) / (c)		0.00%

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

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8%
Wage growth	4%

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,270,000	\$ 3,270,000	\$ 3,647,937	\$ 377,937
Intergovernmental	1,394,080	1,394,080	1,389,676	(4,404)
Charges for services	148,000	148,000	187,034	39,034
Fines and forfeitures	90,800	90,800	55,998	(34,802)
Other revenue	528,000	528,000	48,327	(479,673)
Interest	8,000	8,000	6,869	(1,131)
Licenses, permits and fees	21,000	21,000	12,167	(8,833)
Total revenues	<u>5,459,880</u>	<u>5,459,880</u>	<u>5,348,008</u>	<u>(111,872)</u>
Expenditures				
Current				
General government	660,493	660,493	592,802	67,691
Public safety	2,151,215	2,151,215	2,126,525	24,690
Public works and streets	332,573	332,573	306,832	25,741
Parks and recreation	895,724	1,015,724	1,048,343	(32,619)
Welfare	79,938	79,938	79,140	798
Capital outlay	244,453	244,453	244,453	-
Total expenditures	<u>4,364,396</u>	<u>4,484,396</u>	<u>4,398,095</u>	<u>86,301</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,095,484</u>	<u>975,484</u>	<u>949,913</u>	<u>(25,571)</u>
Other financing sources (uses)				
Sale of assets	18,420	18,420	11,772	(6,648)
Transfers	(1,293,905)	(1,293,905)	(1,019,555)	274,350
Total other financing sources (uses)	<u>(1,275,485)</u>	<u>(1,275,485)</u>	<u>(1,007,783)</u>	<u>267,702</u>
Net change in fund balances	(180,001)	(300,001)	(57,870)	242,131
Fund balances, beginning of year	<u>2,073,256</u>	<u>2,073,256</u>	<u>2,073,256</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,893,255</u>	<u>\$ 1,773,255</u>	<u>\$ 2,015,386</u>	<u>\$ 242,131</u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 604,284	\$ 604,284	\$ 632,238	\$ 27,954
Other revenue	3,500	3,500	-	(3,500)
Total revenues	<u>607,784</u>	<u>607,784</u>	<u>632,238</u>	<u>24,454</u>
Expenditures				
Current				
Public works and streets	880,686	760,686	644,138	116,548
Capital outlay	<u>567,286</u>	<u>567,286</u>	<u>567,286</u>	<u>-</u>
Total expenditures	<u>1,447,972</u>	<u>1,327,972</u>	<u>1,211,424</u>	<u>116,548</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(840,188)</u>	<u>(720,188)</u>	<u>(579,186)</u>	<u>141,002</u>
Other financing sources (uses)				
Transfers	<u>840,188</u>	<u>840,188</u>	<u>610,046</u>	<u>(230,142)</u>
Net change in fund balances	-	120,000	30,860	(89,140)
Fund balances, beginning of year	<u>(42,833)</u>	<u>(42,833)</u>	<u>(42,833)</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ (42,833)</u></u>	<u><u>\$ 77,167</u></u>	<u><u>\$ (11,973)</u></u>	<u><u>\$ (89,140)</u></u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,765,389	\$ 1,765,389	\$ 231,348	\$ (1,534,041)
Expenditures				
Current				
General government	1,502,703	1,502,703	10,519	1,492,184
Public safety	40,947	40,947	40,947	-
Parks and recreation	15,923	15,923	15,923	-
Capital outlay	205,816	205,816	205,816	-
Total expenditures	<u>1,765,389</u>	<u>1,765,389</u>	<u>273,205</u>	<u>1,492,184</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(41,857)</u>	<u>(41,857)</u>
Other financing sources (uses)				
Transfers	14,589	14,589	-	(14,589)
Net change in fund balances	14,589	14,589	(41,857)	(56,446)
Fund balances, beginning of year	<u>68,663</u>	<u>68,663</u>	<u>68,663</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 83,252</u></u>	<u><u>\$ 83,252</u></u>	<u><u>\$ 26,806</u></u>	<u><u>\$ (56,446)</u></u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2015

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

Arizona Revised Statutes (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.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

City of Holbrook, Arizona
Required Supplementary Information
Schedule of the City's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	2014 through 2006
City's proportion of the net pension liability	0.018808	Information
City's proportionate share of the net pension liability	\$ 2,782,938	not available
City's covered-employee payroll	1,870,688	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	148.77%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Changes in the City's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

PSPRS

	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	2014 through 2006
Total pension liability		Information not available
Service cost	\$ 128,316	
Interest on the total pension liability	458,327	
Changes of benefit terms	219,150	
Differences between expected and actual experience in the measurement of the pension liability	302,968	
Changes of assumptions or other inputs	1,073,926	
Benefit payments, including refunds of employee contributions	(448,947)	
Net change in total pension liability	<u>1,733,740</u>	
Total pension liability - beginning	<u>5,998,872</u>	
Total pension liability - ending (a)	<u><u>\$ 7,732,612</u></u>	
 Plan fiduciary net position		
Contributions - employer	\$ 281,536	
Contributions - employee	68,611	
Net investment income	230,716	
Benefit payments, including refunds of employee contributions	(448,947)	
Administrative expense	-	
Other changes	(144,423)	
Net change in plan fiduciary net position	<u>(12,507)</u>	
Plan fiduciary net position - beginning	<u>1,849,241</u>	
Plan fiduciary net position - ending (b)	<u><u>\$ 1,836,734</u></u>	
 City's net pension liability (asset) - ending (a) - (b)	<u><u>\$ 5,895,878</u></u>	
 Plan fiduciary net position as a percentage of the total pension liability	23.75%	
 Covered-employee payroll	\$ 612,404	
 City's net pension liability (asset) as a percentage of covered- employee payroll	962.74%	

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of City Pension Contributions
June 30, 2015

Arizona State Retirement System

	<u>Reporting Fiscal Year</u>		2013 through 2006
	2015	2014	
Statutorily required contribution	\$ (214,449)	\$ (213,998)	Information not available
City's contributions in relation to the statutorily required contribution	<u>214,449</u>	<u>213,998</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 1,868,023	\$ 1,893,788	
City's contributions as a percentage of covered-employee payroll	11.48%	11.30%	

PSPRS

	<u>Reporting Fiscal Year</u>		2013 through 2006
	2015	2014	
Actuarilly determined contribution	\$ (311,595)	\$ (281,536)	Information not available
City's contributions in relation to the actuarilly determined contribution	<u>311,595</u>	<u>281,536</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	\$ 675,618	\$ 639,709	
City's contributions as a percentage of covered-employee payroll	46.12%	44.01%	

See accompanying notes to pension plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2015

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%
Wage growth	In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

Health Insurance Premium Benefit - PSPRS

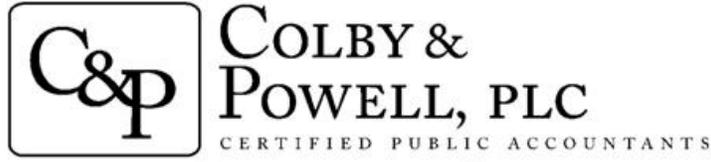
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/14	\$ 202,543	\$ 114,229	\$ (88,314)	177.3 %	\$ 612,402	0.00 %
06/30/13	-	126,376	126,376	0.0	681,557	18.54 %
06/30/12	-	131,523	131,523	0.0	674,864	19.49 %

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

City of Holbrook, Arizona
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

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



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

To the City Council
City of Holbrook, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of City of Holbrook, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Holbrook, Arizona's basic financial statements and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not 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 **11-02**, **11-03**, and **11-04** 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 **13-01** to be a significant deficiency.

Compliance and Other Matters

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

City of Holbrook, Arizona's Response to Findings

City of Holbrook, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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.



November 13, 2015

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2015

Financial Statement Findings

Item: 11-02 (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: 11-03 (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, 2015

Item: 11-04 (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: 13-01 (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.