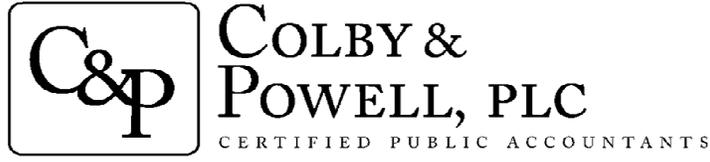


CITY OF HOLBROOK, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2014

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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, 2014, 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 4 to 12, 39 to 42, and 43 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 October 20, 2014, 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.

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

October 20, 2014

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014

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, 2014. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total governmental fund balances \$2,099,087
- Total General Fund revenues exceeded total General Fund expenditures by \$1,115,908
- Transferred \$269,531 from the General Fund to HURF for road reconstruction
- 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, 2014

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, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the City's financial position. The City's combined assets exceed liabilities by \$16.3 million as of June 30, 2014 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	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 2,527,609	\$ 2,004,881	\$ (274,104)	\$ 108,273	\$ 2,253,505	\$ 2,113,154
Capital assets	7,046,209	7,318,351	10,391,121	11,058,459	17,437,330	18,376,810
Total assets	<u>9,573,818</u>	<u>9,323,232</u>	<u>10,117,017</u>	<u>11,166,732</u>	<u>19,690,835</u>	<u>20,489,964</u>
Current liabilities	476,222	495,432	621,023	738,374	1,097,245	1,233,806
Non-current liabilities	76,392	85,137	2,236,919	2,580,291	2,313,311	2,665,428
Total liabilities	<u>552,614</u>	<u>580,569</u>	<u>2,857,942</u>	<u>3,318,665</u>	<u>3,410,556</u>	<u>3,899,234</u>
Net position:						
Invested in capital assets, net of related debt	7,046,209	7,318,351	7,469,121	8,136,459	14,515,330	15,454,810
Unrestricted	1,974,995	1,424,312	(210,046)	(288,392)	1,764,949	1,135,920
Total net position	<u>\$ 9,021,204</u>	<u>\$ 8,742,663</u>	<u>\$ 7,259,075</u>	<u>\$ 7,848,067</u>	<u>\$ 16,280,279</u>	<u>\$ 16,590,730</u>

Governmental Activities

The cost of all governmental activities this year was \$5,050,641. As shown on the Statement of Activities, \$238,483 of this cost was paid for by those who directly benefited from the programs; \$802,684 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 \$1,041,167. General taxes, state revenue sharing and investment earnings totaled \$4,721,053.

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

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014

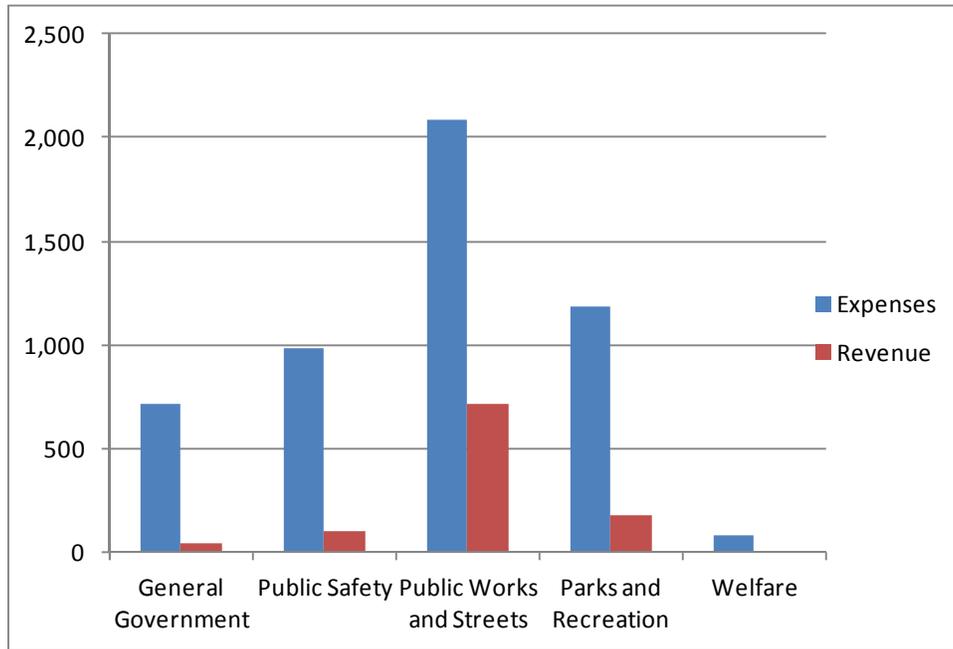
CITY OF HOLBROOK, ARIZONA
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 238,483	\$ 259,877	\$ 1,818,037	\$ 1,807,570	\$ 2,056,520	\$ 2,067,447
Operating grants and contributions	724,611	694,624	-	-	724,611	694,624
Capital grants and contributions	78,073	122,690	-	33,398	78,073	156,088
General revenues						
Local taxes	3,464,719	4,147,715	-	-	3,464,719	4,147,715
State shared revenues	1,261,218	1,135,455	-	-	1,261,218	1,135,455
Investment earnings	11,831	8,965	-	-	11,831	8,965
Miscellaneous	45,771	94,223	-	-	45,771	94,223
Miscellaneous	(62,486)	2,724	14,212	-	(48,274)	2,724
Total revenues	<u>5,762,220</u>	<u>6,466,273</u>	<u>1,832,249</u>	<u>1,840,968</u>	<u>7,594,469</u>	<u>8,307,241</u>
Expenses						
General government	717,539	839,309	-	-	717,539	839,309
Public safety	984,300	1,042,501	-	-	984,300	1,042,501
Public works and streets	2,090,235	2,117,496	-	-	2,090,235	2,117,496
Parks and recreation	1,183,167	1,203,515	-	-	1,183,167	1,203,515
Welfare	75,400	67,586	-	-	75,400	67,586
Utilities	-	-	2,807,717	2,852,436	2,807,717	2,852,436
Total expenses	<u>5,050,641</u>	<u>5,270,407</u>	<u>2,807,717</u>	<u>2,852,436</u>	<u>7,858,358</u>	<u>8,122,843</u>
Change in net position before transfers	711,579	1,195,866	(975,468)	(1,011,468)	(263,889)	184,398
Transfers	(433,038)	(360,000)	433,038	360,000	-	-
Change in net position	278,541	835,866	(542,430)	(651,468)	(263,889)	184,398
Net position, beginning of year	8,742,663	7,906,797	7,801,505	8,452,973	16,544,168	16,359,770
Net position, end of year	<u>\$ 9,021,204</u>	<u>\$ 8,742,663</u>	<u>\$ 7,259,075</u>	<u>\$ 7,801,505</u>	<u>\$ 16,280,279</u>	<u>\$ 16,544,168</u>

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014

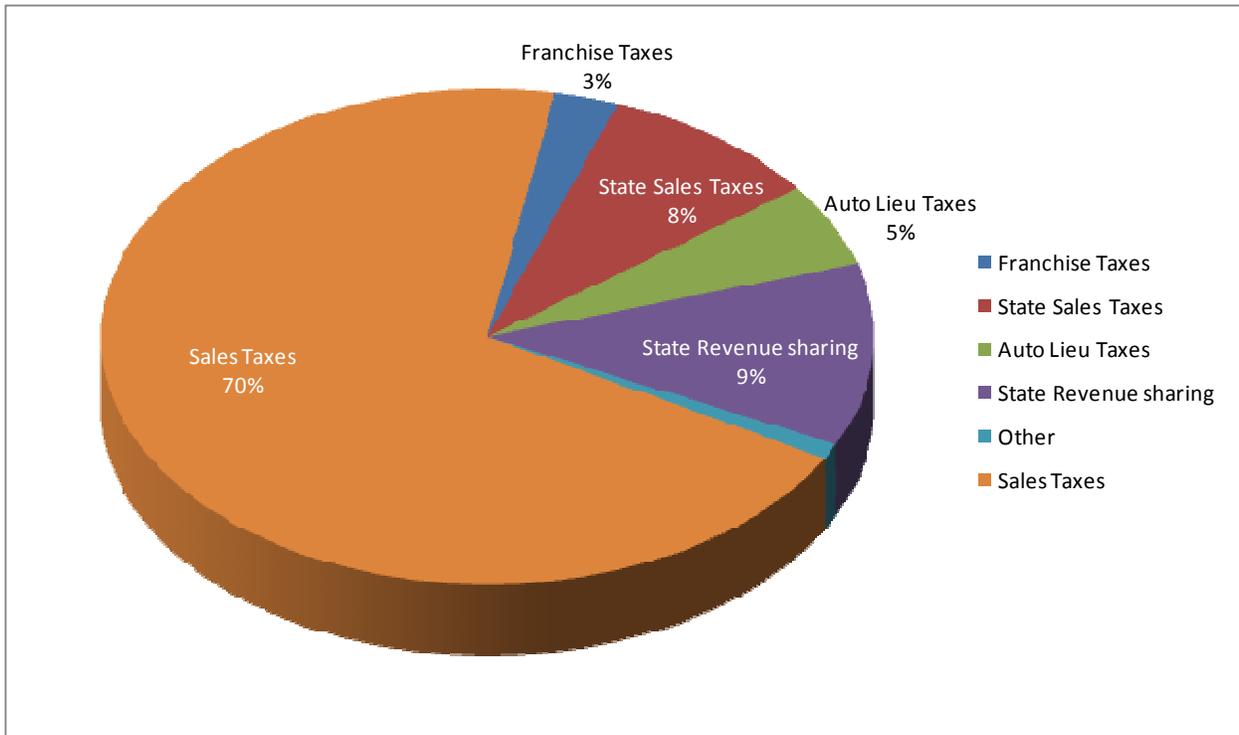
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

Governmental Activities
Revenues vs. Expenses
(Amounts in \$1,000)



**City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014**

General Revenues by Source – Governmental Activities

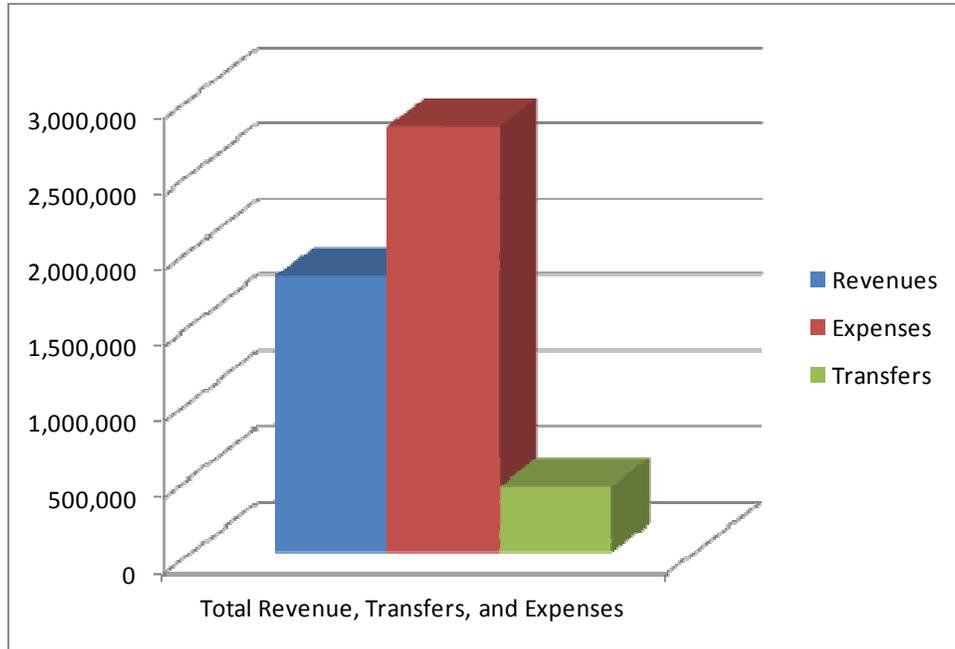


Business-type Activities

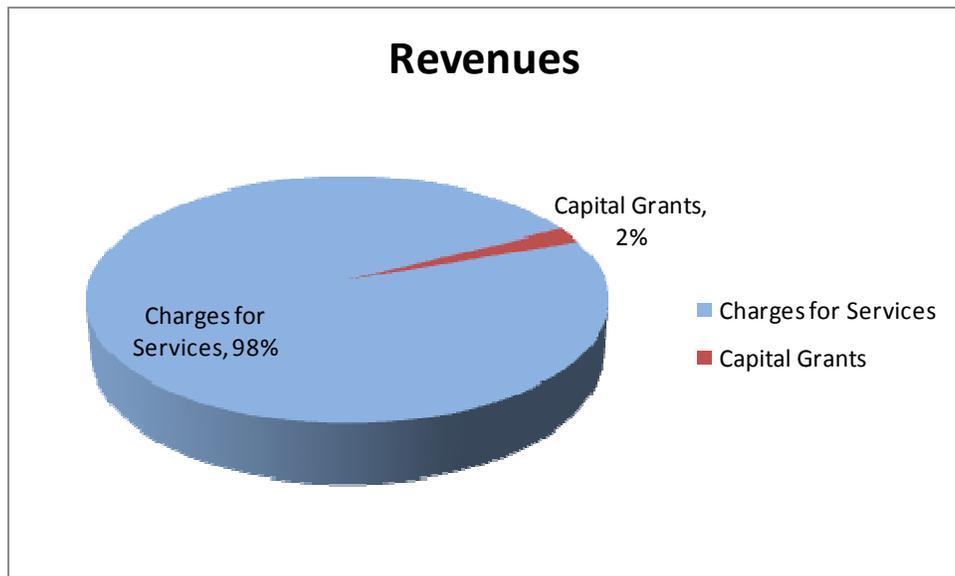
Net position of the business-type activities at June 30, 2014, as reflected in the Statement of Net Position was \$7,259,075. The cost of providing all business-type activities this year was \$2,807,717. As shown in the Statement of Activities, the amounts paid by users of the system were \$1,818,037. Transfers in from governmental activities were \$433,038. Net position decreased by \$542,430.

**City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014**

Program Revenues, Expenses, and Transfers – Business-type Activities



Revenue By Source – Business-type Activities



City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014

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 \$2,099,086, an increase of \$453,310 in comparison with the prior year. 100% of the end of year fund balance amount constitutes unassigned fund balance, which is available for new spending at the government's discretion. 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 \$2,073,256. 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 52.5% of total General Fund expenditures excluding transfers. During the year, the City of Holbrook's General Fund balance increased by \$433,777.

The Highway User Revenue Fund has a total fund balance of \$(42,833). The net increase in the fund balance during the current year was \$745.

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 \$7,259,075 consisting of \$7,469,121 invested in capital assets, net of related debt and \$(210,046) in unrestricted net position.

Budgetary Highlights

The General Fund's revenues of \$5,068,611 were more than budgeted revenues of \$4,859,078 by \$209,533 and the General Fund's expenditures of \$3,952,703 were less than budgeted expenditures of \$4,046,693 by \$93,990.

HURF Revenues of \$589,228 were more than budgeted revenues of \$575,759 by \$13,469 and expenditures of \$858,014 were less than budgeted expenditures of \$958,937 by \$100,923. This is a direct reflection of management using transfers from the General Fund to HURF to continue improving roads and infrastructure.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2014

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 2014, net capital assets of the government activities totaled \$7,046,209 and the net capital assets of the business-type activities totaled \$10,391,121. Depreciation on capital assets for both government activities and business-type activities is recognized in the government-wide financial statements.

Debt

At year-end, the City had \$229,130 in recorded in the governmental activities, and \$2,635,678 in the business-type activities. The governmental activities debt is mainly comprised of compensated absences which management has little control over. This type of debt is a liability of the government and amounts to \$45.35 per capita. During the current fiscal year, the City's total debt decreased by \$451,524. The decrease is the result of regularly scheduled annual debt service payments.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's budget for fiscal year 2014/2015, 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 11.7% increase from the level of fiscal year 2013/2014. Several factors pushed this budget amount including a one-time budget override in the amount of \$500,000 to continue rebuilding roads.

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, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,107,946	\$ 50	\$ 1,107,996
Cash and cash equivalents, restricted	-	444,121	444,121
Taxes receivable	29,626	-	29,626
Due from other governments	411,872	-	411,872
Receivables, net	9,284	155,883	165,167
Inventory	48,717	46,006	94,723
Interactivity balances	920,164	(920,164)	-
Capital assets, not being depreciated	914,945	282,822	1,197,767
Capital assets, being depreciated, net	6,131,264	10,108,299	16,239,563
Total assets	9,573,818	10,117,017	19,690,835
LIABILITIES			
Accounts payable	191,285	96,477	287,762
Accrued expenses	132,199	23,666	155,865
Interest payable	-	34,162	34,162
Customer deposits	-	67,959	67,959
Noncurrent liabilities			
Due within 1 year	152,738	398,759	551,497
Due in more than 1 year	76,392	2,236,919	2,313,311
Total liabilities	552,614	2,857,942	3,410,556
NET POSITION			
Invested in capital assets, net of related debt	7,046,209	7,469,121	14,515,330
Unrestricted (deficit)	1,974,995	(210,046)	1,764,949
Total net position	\$ 9,021,204	\$ 7,259,075	\$ 16,280,279

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Activities
Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 717,539	\$ 28,678	\$ 14,240	\$ -	\$ (674,621)	\$ -	\$ (674,621)
Public safety	984,300	62,336	41,298	-	(880,666)	-	(880,666)
Public works and streets	2,090,235	58,428	635,073	24,121	(1,372,613)	-	(1,372,613)
Parks and recreation	1,183,167	89,041	34,000	53,952	(1,006,174)	-	(1,006,174)
Welfare	75,400	-	-	-	(75,400)	-	(75,400)
Total governmental activities	5,050,641	238,483	724,611	78,073	(4,009,474)	-	(4,009,474)
Business-type activities							
Utilities	2,807,717	1,818,037	-	-	-	(989,680)	(989,680)
Total business-type activities	2,807,717	1,818,037	-	-	-	(989,680)	(989,680)
Total primary government	\$ 7,858,358	\$ 2,056,520	\$ 724,611	\$ 78,073	(4,009,474)	(989,680)	(4,999,154)
General revenue:							
Taxes							
Sales taxes					3,286,333	-	3,286,333
Property taxes					52,020	-	52,020
Franchise taxes					126,366	-	126,366
State sales tax revenue sharing					439,827	-	439,827
Auto lieu tax revenue sharing					258,170	-	258,170
State revenue sharing					563,221	-	563,221
Interest income					11,831	-	11,831
Miscellaneous					45,771	-	45,771
Gain (loss) on disposal of capital assets					(62,486)	14,212	(48,274)
Transfers:					(433,038)	433,038	-
Total general revenues and transfers					4,288,015	447,250	4,735,265
Change in net position					278,541	(542,430)	(263,889)
Net position, beginning of year, as restated					8,742,663	7,801,505	16,544,168
Net position, end of year					\$ 9,021,204	\$ 7,259,075	\$ 16,280,279

See accompanying notes to financial statements.

City of Holbrook, Arizona
Balance Sheet
Governmental Funds
June 30, 2014

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,007,138	\$ -	\$ 100,808	\$ 1,107,946
Taxes receivable	29,626	-	-	29,626
Due from other governments	302,435	56,191	53,246	411,872
Accounts receivable, net	9,284	-	-	9,284
Inventory	48,717	-	-	48,717
Due from other funds	972,445	-	-	972,445
	Total assets	56,191	154,054	2,579,890
LIABILITIES				
Accounts payable	100,378	36,828	54,079	191,285
Accrued expenses	121,529	9,915	755	132,199
Due to other funds	-	52,281	-	52,281
	Total liabilities	99,024	54,834	375,765
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	74,482	-	30,557	105,039
	Total deferred inflows of resources	-	30,557	105,039
Fund balances				
Unspendable	48,717	-	-	48,717
Unassigned	2,024,539	(42,833)	68,663	2,050,369
	Total fund balances	(42,833)	68,663	2,099,086
	Total liabilities, deferred inflows of resources, and fund balances	\$ 56,191	\$ 154,054	\$ 2,579,890

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, 2014

Fund balances--total governmental funds		\$ 2,099,086
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p>		7,046,209
<p>Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.</p>		105,039
<p>Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.</p>		
<p>Manager contract</p>	(25,479)	
<p>Compensated absences</p>	(203,651)	
	(229,130)	(229,130)
Net position of governmental activities		\$ 9,021,204

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, 2014

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Fund
Revenues				
Taxes	\$ 3,465,465	\$ -	\$ -	\$ 3,465,465
Intergovernmental	1,311,252	585,038	139,777	2,036,067
Charges for services	162,153	-	-	162,153
Fines and forfeitures	47,653	-	-	47,653
Other revenue	41,579	4,190	-	45,769
Interest	11,831	-	-	11,831
Licenses, permits and fees	28,678	-	-	28,678
Total revenues	<u>5,068,611</u>	<u>589,228</u>	<u>139,777</u>	<u>5,797,616</u>
Expenditures				
Current				
General government	627,619	-	46,853	674,472
Public safety	1,982,336	-	9,117	1,991,453
Public works and streets	311,640	623,092	-	934,732
Parks and recreation	902,390	-	24,025	926,415
Welfare	75,400	-	-	75,400
Capital outlay	53,318	234,922	40,994	329,234
Total expenditures	<u>3,952,703</u>	<u>858,014</u>	<u>120,989</u>	<u>4,931,706</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,115,908</u>	<u>(268,786)</u>	<u>18,788</u>	<u>865,910</u>
Other financing sources (uses)				
Sale of assets	20,438	-	-	20,438
Transfers	(702,569)	269,531	-	(433,038)
Total other financing sources (uses)	<u>(682,131)</u>	<u>269,531</u>	<u>-</u>	<u>(412,600)</u>
Net change in fund balances	433,777	745	18,788	453,310
Fund balances, beginning of year	<u>1,639,479</u>	<u>(43,578)</u>	<u>49,875</u>	<u>1,645,776</u>
Fund balances, end of year	<u>\$ 2,073,256</u>	<u>\$ (42,833)</u>	<u>\$ 68,663</u>	<u>\$ 2,099,086</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, 2014

Net change in fund balances--total governmental funds \$ 453,310

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	329,234	
Depreciation expense	(532,205)	
		(202,971)

In the Statement of Activities, only the gain/loss on the sale
of capital assets is reported whereas in the governmental
funds, the proceeds from the sale increase financial
resources. Thus, the change in net position differs from the
change in fund balance by the book value of the capital
assets sold.

(69,171)

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	(13,753)	
Decrease in unavailable grant revenues	27,836	
Increase in unavailable property taxes	(746)	
		13,337

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

Increase in compensated absences	100,387	
Increase in manager contract liability	(16,351)	
		84,036

Change in net position of governmental activities \$ 278,541

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2014

	Business-type Activities--Enterprise Funds	
	Utility	Utility
	Fund June 30, 2014	Fund June 30, 2013
ASSETS		
Current assets		
Cash and cash equivalents	\$ 50	\$ -
Cash and cash equivalents, restricted	444,121	468,202
Accounts receivable, net	155,883	172,824
Inventory	46,006	46,006
Total current assets	646,060	687,032
Noncurrent assets		
Capital assets, net of accumulated depreciation, where applicable	10,391,121	11,058,459
Total noncurrent assets	10,391,121	11,058,459
Total assets	11,037,181	11,745,491
LIABILITIES		
Current liabilities		
Accounts payable	96,477	189,112
Accrued expenses	23,666	20,185
Accrued interest payable	34,162	36,877
Current portion of long-term debt	398,759	422,875
Customer deposits	67,959	69,325
Due to other funds	920,164	625,321
Total current liabilities	1,541,187	1,363,695
Noncurrent liabilities		
Compensated absences	18,919	20,291
Notes payable	2,218,000	2,560,000
Total noncurrent liabilities	2,236,919	2,580,291
Total liabilities	3,778,106	3,943,986
Net position		
Invested in capital assets, net of related debt	7,469,121	8,136,459
Unrestricted (deficit)	(210,046)	(334,954)
Total net position	\$ 7,259,075	\$ 7,801,505

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, 2014

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2014	Utility Fund June 30, 2013
	Operating revenues	
Charges for services	\$ 1,746,838	\$ 1,769,298
Miscellaneous	71,199	38,271
Total operating revenues	<u>1,818,037</u>	<u>1,807,569</u>
Operating expenses		
Personnel	892,868	877,069
Service, supplies and other	1,146,919	1,139,832
Depreciation	699,608	728,608
Total operating expenses	<u>2,739,395</u>	<u>2,745,509</u>
Operating income (loss)	<u>(921,358)</u>	<u>(937,940)</u>
Nonoperating revenues (expenses)		
Gain on sale of assets	14,212	-
Interest expense	(68,322)	(101,103)
Total nonoperating revenues (expenses)	<u>(54,110)</u>	<u>(101,103)</u>
Income (loss) before contributions, gains, losses, and transfers	(975,468)	(1,039,043)
Capital grants	-	33,398
Transfers in	433,038	360,000
Increase (decrease) in net position	(542,430)	(645,645)
Total net position, beginning of year, as restated	7,801,505	8,447,150
Total net position, end of year	<u>\$ 7,259,075</u>	<u>\$ 7,801,505</u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2014

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2014	Utility Fund June 30, 2013
	Cash flows from operating activities:	
Receipts from customers	\$ 1,833,612	\$ 1,803,403
Payments to suppliers and providers of goods and services	(1,513,505)	(1,282,174)
Payments to employees	(620,924)	(589,139)
Net cash provided (used) by operating activities	(300,817)	(67,910)
Cash flows from noncapital financing activities:		
Borrowings from other funds	294,843	625,321
Net transfers (to) from other funds	433,038	360,000
Net cash provided (used) by noncapital financing activities	727,881	985,321
Cash flows from capital and related financing activities:		
Proceeds from capital grants	-	33,398
Proceeds from sale of assets	14,212	-
Purchase of capital assets	(32,270)	(308,818)
Principal paid on notes payable	(362,000)	(302,000)
Principal paid on capital leases	-	(480,297)
Interest paid	(71,037)	(84,293)
Net cash provided (used) by capital and related financing activities	(451,095)	(1,142,010)
Net increase (decrease) in cash and cash equivalents	(24,031)	(224,599)
Cash and cash equivalents, beginning of year	468,202	692,801
Cash and cash equivalents, end of year	\$ 444,171	\$ 468,202
Cash and cash equivalents	\$ 50	\$ -
Cash and cash equivalents, restricted	444,121	468,202
Cash and cash equivalents, end of year	\$ 444,171	\$ 468,202

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2014
(Continued)

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2014	Utility Fund June 30, 2013
	Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (921,358)	\$ (937,940)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	699,608	728,608
(Increase) decrease in:		
Accounts receivable	16,941	(6,889)
Increase (decrease) in:		
Accounts payable	(92,635)	117,342
Accrued expenses	3,481	(1,467)
Customer deposits	(1,366)	2,723
Compensated absences payable	(5,488)	29,713
Net cash provided (used) by operating activities	\$ (300,817)	\$ (67,910)

See accompanying notes to financial statements.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

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, 2014

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, 2014 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, 2014

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, 2014

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, 2014, for the Utility Fund was \$149,568.

F. Property Tax Calendar

Property taxes are billed and collected through Navajo County. The County 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 County 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, 2014

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, 2014

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, 2014

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 March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. See Note 9 for further information on how this Statement affected the City.

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. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary fund.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

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, 2014, the carrying amount of the City’s total nonpooled cash in bank was \$964,500, and the bank balance was \$1,007,916. 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 \$67,959 reserved for refundable customer deposits and \$376,162 reserved for debt service.

Investments – At June 30, 2014, 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>\$ 587,217</u>	<u>\$ 587,217</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, 2014

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due at June 30, 2014 from other governments in the Governmental Funds consisted of the following:

Description	Governmental Activities
<u>State of Arizona:</u>	
City sales tax	\$ 187,925
Highway user revenue	56,191
State sales tax	37,344
Grants	53,246
Vehicle license tax	11,776
<u>Navajo County:</u>	
Property tax	6,619
<u>Other Governments:</u>	<u>58,771</u>
	<u><u>\$ 411,872</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, were as follows:

	<u>Governmental activities</u>			Balance June 30, 2014
	Balance July 1, 2013	Increases	Decreases	
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	-	-	4,898,337
Furniture, equipment and vehicles	4,119,168	58,496	(621,638)	3,556,026
Infrastructure - roads	4,061,875	240,786	-	4,302,661
Runway and taxiway	937,154	-	-	937,154
Improvements - other	51,370	29,952	-	81,322
Total	<u>14,067,904</u>	<u>329,234</u>	<u>(621,638)</u>	<u>13,775,500</u>
Less accumulated depreciation for:				
Buildings	(2,879,756)	(112,768)	-	(2,992,524)
Furniture, equipment and vehicles	(3,185,460)	(223,208)	552,467	(2,856,201)
Infrastructure - roads	(836,654)	(180,570)	-	(1,017,224)
Runway and taxiway	(751,057)	(10,220)	-	(761,277)
Improvements - other	(11,571)	(5,439)	-	(17,010)
Total	<u>(7,664,498)</u>	<u>(532,205)</u>	<u>552,467</u>	<u>(7,644,236)</u>
Total capital assets being depreciated, net	<u>6,403,406</u>	<u>(202,971)</u>	<u>(69,171)</u>	<u>6,131,264</u>
Governmental activities capital assets, net	<u>\$ 7,318,351</u>	<u>\$ (202,971)</u>	<u>\$ (69,171)</u>	<u>\$ 7,046,209</u>
	<u>Business-type activities</u>			
	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
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	30,965,718	20,233	-	30,985,951
Furniture, equipment and vehicles	2,101,448	12,037	(385,914)	1,727,571
Total	<u>33,067,166</u>	<u>32,270</u>	<u>(385,914)</u>	<u>32,713,522</u>
Less accumulated depreciation for:				
Utility systems	(20,731,342)	(580,551)	-	(21,311,893)
Furniture, equipment and vehicles	(1,560,187)	(119,057)	385,914	(1,293,330)
Total	<u>(22,291,529)</u>	<u>(699,608)</u>	<u>385,914</u>	<u>(22,605,223)</u>
Total capital assets being depreciated, net	<u>10,775,637</u>	<u>(667,338)</u>	<u>-</u>	<u>10,108,299</u>
Business-type activities capital assets, net	<u>\$ 11,058,459</u>	<u>\$ (667,338)</u>	<u>\$ -</u>	<u>\$ 10,391,121</u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 51,812
Public safety	123,879
Public works and streets	273,532
Parks and recreation	<u>82,982</u>
Total governmental activities depreciation expense	<u><u>\$ 532,205</u></u>
Business-type activities:	
Utility	<u>\$ 699,608</u>
Total business-type activities depreciation expense	<u><u>\$ 699,608</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, 2014.

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities:					
Compensated absences	\$ 304,038	\$ -	\$ (100,387)	\$ 203,651	\$ 152,738
Manager contract liability	<u>9,128</u>	<u>16,351</u>	<u>-</u>	<u>25,479</u>	<u>-</u>
Governmental activities long-term liabilities	<u><u>\$ 313,166</u></u>	<u><u>\$ 16,351</u></u>	<u><u>\$ (100,387)</u></u>	<u><u>\$ 229,130</u></u>	<u><u>\$ 152,738</u></u>
Business-type activities:					
Bonds payable	\$ 2,922,000	\$ -	\$ (362,000)	\$ 2,560,000	\$ 342,000
Compensated absences	<u>81,166</u>	<u>-</u>	<u>(5,488)</u>	<u>75,678</u>	<u>56,759</u>
Business-type activities long-term liabilities	<u><u>\$ 3,003,166</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (367,488)</u></u>	<u><u>\$ 2,635,678</u></u>	<u><u>\$ 398,759</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 5 – LONG-TERM LIABILITIES – Continued

Bonds payable

The following is a listing of bonds payable as of June 30, 2014:

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.	\$	2,560,000
	Less current portion	<u>(342,000)</u>
	Total notes payable net of current portion	<u><u>\$ 2,218,000</u></u>

The debt service requirements to maturity are as follows:

Year	Bonds Payable	
Ending June 30	Principal	Interest
2015	\$ 342,000	\$ 62,509
2016	347,000	55,292
2017	355,000	46,807
2018	363,000	37,151
2019	373,000	26,185
2020-2021	<u>780,000</u>	<u>13,820</u>
Total	<u><u>\$ 2,560,000</u></u>	<u><u>\$ 241,764</u></u>

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

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, 2014, the General Fund transferred \$269,531 to the HURF/LTAF Fund to cover street improvements. The General Fund also transferred \$433,038 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 and the Utility Fund resources to fund ongoing operations. Balances are not expected to be repaid within one year.

NOTE 9 – RESTATEMENT OF BEGINNING NET POSITION

The City had to restate net position of the Utility Fund and the Business-type Activities to adjust for deferred costs which are no longer considered assets under GASB 65 (see Note 1). The effects of the restatements are a reduction of beginning net position of the Utility Fund and the Business-type Activities in the amount of \$46,562.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 10 – RETIREMENT PLANS

Plan Descriptions – The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees’ average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee’s monthly compensation. Health insurance premium benefits are generally paid as a flat dollar amount per month towards the retiree’s health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and dependents

The *Arizona State Retirement System* (ASRS) administers cost-sharing multiple-employer defined benefit pension, health insurance premium, and long-term disability plans that cover employees of the State of Arizona and participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The system issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Arizona State Retirement System, 3300 N. Central Ave., P.O. Box 33910, Phoenix, Arizona, 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

The *Public Safety Personnel Retirement System* (PSPRS) administers agent multiple-employer defined benefit pension and health insurance premium plans that cover public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the Public Safety Personnel Retirement System, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016-4416, or by calling (602) 255-5575.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members’ and the City’s contribution rates for both ASRS and PSPRS.

Cost-sharing plans – For the year ended June 30, 2014, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 11.54 percent (11.30 percent for retirement and 0.24 percent for long-term disability) of the members’ annual covered payroll. The City’s contributions to ASRS for the years ended June 30, 2014, 2013, and 2012, were \$218,543, \$190,575, and \$171,912, respectively, which were equal to the required contributions for the year.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 10 – RETIREMENT PLANS – Continued

Agent plans – For the year ended June 30, 2014, active PSPRS members were required by statute to contribute 10.35 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rate of 44.01 percent, of which 1.54 percent was the health insurance premium portion.

The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding status presented below 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 understood by the City of Holbrook, Arizona and plan members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the City and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level percent-of-pay closed
Remaining amortization period	24 years for underfunded actuarial liability, 20 years for overfunded
Asset valuation method	7-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	5.00% - 9.00%
Payroll growth	5.00%

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2014

NOTE 10 – RETIREMENT PLANS – Continued

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Pension	2014	\$ 242,486	100 %	\$ -
	2013	226,601	100	-
	2012	210,563	100	-
Health Insurance	2014	\$ 11,458	100 %	\$ -
	2013	12,637	100	-
	2012	12,555	100	-

Funded Status and Funding Progress – Following are schedules of funded status and progress of the plans as of the most recent valuation date, June 30, 2013, and the previous two fiscal years. The fiscal year 2013 actuarial methods and assumptions used for the schedules are not significantly different than the fiscal year 2012 actuarial methods and assumptions as described on page above.

Pension

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)
6/30/2013	\$ 2,069,353	\$ 5,998,872	\$ 3,929,519	34.5 %	\$ 681,557	576.6 %
6/30/2012	2,119,507	5,957,604	3,838,097	35.6	674,834	568.7
6/30/2011	2,227,445	5,322,783	3,095,338	41.8	703,181	440.2

Health Insurance

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)
6/30/2013	\$ -	\$ 126,376	\$ 126,376	0.0 %	\$ 681,557	18.5 %
6/30/2012	-	131,523	131,523	0.0	674,834	19.5
6/30/2011	-	129,890	129,890	0.0	703,181	18.5

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 3,239,322	\$ 3,239,322	\$ 3,465,465	\$ 226,143
Intergovernmental	1,310,387	1,310,387	1,311,252	865
Charges for services	159,000	159,000	162,153	3,153
Fines and forfeitures	95,369	95,369	47,653	(47,716)
Other revenue	28,000	28,000	41,579	13,579
Interest	15,000	15,000	11,831	(3,169)
Licenses, permits and fees	12,000	12,000	28,678	16,678
Total revenues	<u>4,859,078</u>	<u>4,859,078</u>	<u>5,068,611</u>	<u>209,533</u>
Expenditures				
Current				
General government	635,481	635,481	627,619	7,862
Public safety	1,963,093	1,963,093	1,982,336	(19,243)
Public works and streets	355,874	355,874	311,640	44,234
Parks and recreation	1,009,914	1,009,914	902,390	107,524
Welfare	77,331	77,331	75,400	1,931
Capital outlay	5,000	5,000	53,318	(48,318)
Total expenditures	<u>4,046,693</u>	<u>4,046,693</u>	<u>3,952,703</u>	<u>93,990</u>
Excess (deficiency) of revenues over (under) expenditures	<u>812,385</u>	<u>812,385</u>	<u>1,115,908</u>	<u>303,523</u>
Other financing sources (uses)				
Sale of assets	18,420	18,420	20,438	2,018
Transfers	(830,805)	(830,805)	(702,569)	128,236
Total other financing sources (uses)	<u>(812,385)</u>	<u>(812,385)</u>	<u>(682,131)</u>	<u>130,254</u>
Net change in fund balances	-	-	433,777	433,777
Fund balances, beginning of year	<u>1,639,479</u>	<u>1,639,479</u>	<u>1,639,479</u>	-
Fund balances, end of year	<u><u>\$ 1,639,479</u></u>	<u><u>\$ 1,639,479</u></u>	<u><u>\$ 2,073,256</u></u>	<u><u>\$ 433,777</u></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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 572,259	\$ 572,259	\$ 585,038	\$ 12,779
Other revenue	3,500	3,500	4,190	690
Total revenues	<u>575,759</u>	<u>575,759</u>	<u>589,228</u>	<u>13,469</u>
Expenditures				
Current				
Public works and streets	958,937	958,937	623,092	335,845
Capital outlay	-	-	234,922	(234,922)
Total expenditures	<u>958,937</u>	<u>958,937</u>	<u>858,014</u>	<u>100,923</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(383,178)</u>	<u>(383,178)</u>	<u>(268,786)</u>	<u>114,392</u>
Other financing sources (uses)				
Transfers	383,178	383,178	269,531	(113,647)
Total other financing sources (uses)	<u>383,178</u>	<u>383,178</u>	<u>269,531</u>	<u>(113,647)</u>
Net change in fund balances	-	-	745	745
Fund balances, beginning of year	<u>(43,578)</u>	<u>(43,578)</u>	<u>(43,578)</u>	-
Fund balances, end of year	<u><u>\$ (43,578)</u></u>	<u><u>\$ (43,578)</u></u>	<u><u>\$ (42,833)</u></u>	<u><u>\$ 745</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,740,800	\$ 1,740,800	\$ 139,777	\$ (1,601,023)
Total revenues	<u>1,740,800</u>	<u>1,740,800</u>	<u>139,777</u>	<u>(1,601,023)</u>
Expenditures				
Current				
General government	314,589	314,589	46,853	267,736
Public safety	1,405,000	1,405,000	9,117	1,395,883
Parks and recreation	35,800	35,800	24,025	11,775
Capital outlay	-	-	40,994	(40,994)
Total expenditures	<u>1,755,389</u>	<u>1,755,389</u>	<u>120,989</u>	<u>1,634,400</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(14,589)</u>	<u>(14,589)</u>	<u>18,788</u>	<u>33,377</u>
Other financing sources (uses)				
Transfers	14,589	14,589	-	(14,589)
Total other financing sources (uses)	<u>14,589</u>	<u>14,589</u>	<u>-</u>	<u>(14,589)</u>
Net change in fund balances	-	-	18,788	18,788
Fund balances, beginning of year	<u>49,875</u>	<u>49,875</u>	<u>49,875</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 49,875</u></u>	<u><u>\$ 49,875</u></u>	<u><u>\$ 68,663</u></u>	<u><u>\$ 18,788</u></u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2014

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 Funding Progress
June 30, 2014

Pension

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)
6/30/2013	\$ 2,069,353	\$ 5,998,872	\$ 3,929,519	34.5 %	\$ 681,557	576.6 %
6/30/2012	2,119,507	5,957,604	3,838,097	35.6	674,834	568.7
6/30/2011	2,227,445	5,322,783	3,095,338	41.8	703,181	440.2

Health Insurance

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)
6/30/2013	\$ -	\$ 126,376	\$ 126,376	0.0 %	\$ 681,557	18.5 %
6/30/2012	-	131,523	131,523	0.0	674,834	19.5
6/30/2011	-	129,890	129,890	0.0	703,181	18.5



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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, 2014, 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 October 20, 2014.

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** to **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 **13-02** 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.



October 20, 2014

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2014

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, 2014

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.