

CITY OF HOLBROOK, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Holbrook, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Holbrook, Arizona as of and for the year ended June 30, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holbrook, Arizona, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of agent retirement plans' funding progress on pages 3 through 10, 37 through 40, and page 41, respectively, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Holbrook, Arizona's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Colby & Powell". The signature is written in black ink and is positioned above the date.

December 28, 2011

CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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, 2011. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total General Fund revenues exceeded total General Fund expenditures and transfers by \$256,489
- Increased General Fund balance to \$1,397,703
- Fair Market Value of Investments as of June 30, 2011 was \$1,415,068
- Total Governmental fund balance \$1,472,956
- Increased total Governmental net assets by \$83,586 and Business-type net assets by \$89,660

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 Assets 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 Assets 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 Assets 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.

These two statements report the City's net assets and changes in them. Net assets, 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 assets 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.

The Statement of Net Assets 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.

CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

- 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 Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in Note 1.
- 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 Assets and the Statement of Activities.

CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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 \$15.9 million as of June 30, 2011 as shown in the following condensed statement of net assets. 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
Statement of Net Assets

	Governmental activities		Business-type activities		Combined Total	
	06/30/11	06/30/10	06/30/11	06/30/10	06/30/11	06/30/10
Current and other assets	\$ 1,864,087	\$ 1,796,009	\$ 876,298	\$ 745,933	\$ 2,740,385	\$ 2,541,942
Capital assets	6,268,259	6,233,368	12,185,317	12,274,034	18,453,576	18,507,402
Total assets	<u>8,132,346</u>	<u>8,029,377</u>	<u>13,061,615</u>	<u>13,019,967</u>	<u>21,193,961</u>	<u>21,049,344</u>
Current liabilities	458,446	402,068	675,197	850,866	1,133,643	1,252,934
Non-current liabilities	488,648	488,953	3,630,601	3,502,944	4,119,249	3,991,897
Total liabilities	<u>947,094</u>	<u>891,021</u>	<u>4,305,798</u>	<u>4,353,810</u>	<u>5,252,892</u>	<u>5,244,831</u>
Net assets:						
Invested in capital assets, net of related debt	5,867,934	5,550,880	8,146,220	8,133,213	14,014,154	13,684,093
Restricted	20,616	342,838	-	-	20,616	342,838
Unrestricted	1,296,702	1,244,638	609,597	532,944	1,906,299	1,777,582
Total net assets	<u>\$ 7,185,252</u>	<u>\$ 7,138,356</u>	<u>\$ 8,755,817</u>	<u>\$ 8,666,157</u>	<u>\$15,941,069</u>	<u>\$15,804,513</u>

Governmental Activities

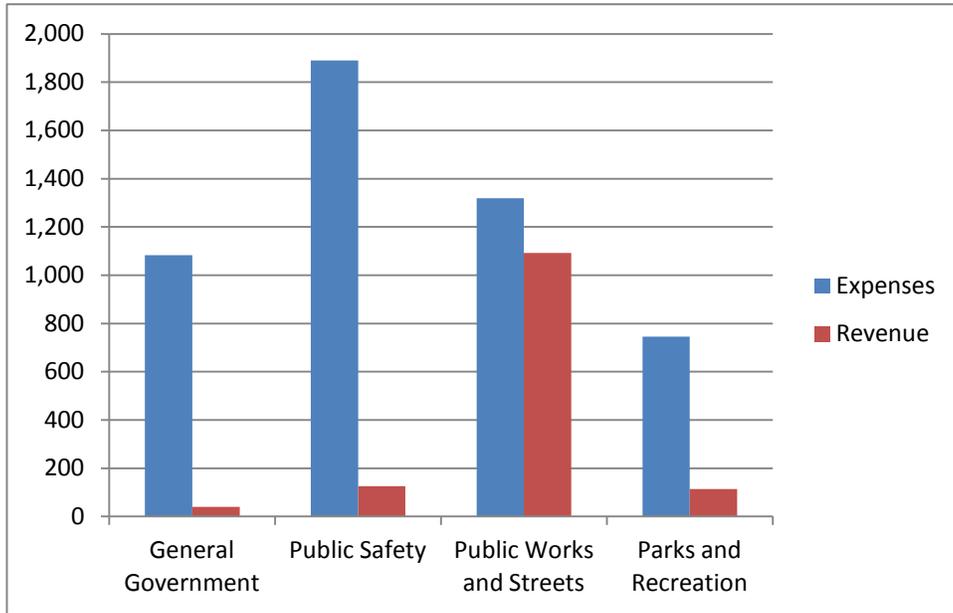
The cost of all Governmental activities this year was \$5,035,802. As shown on the statement of Changes in Net Assets on the following page, \$282,853 of this cost was paid for by those who directly benefited from the programs; \$1,089,904 was subsidized by grants received from other governmental organizations for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services were \$1,372,757. General taxes, State Revenue Sharing and investment earnings totaled \$3,746,631.

The City's programs include: General Government, Public Safety, Public Works/Streets, and Parks and Recreation.

CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

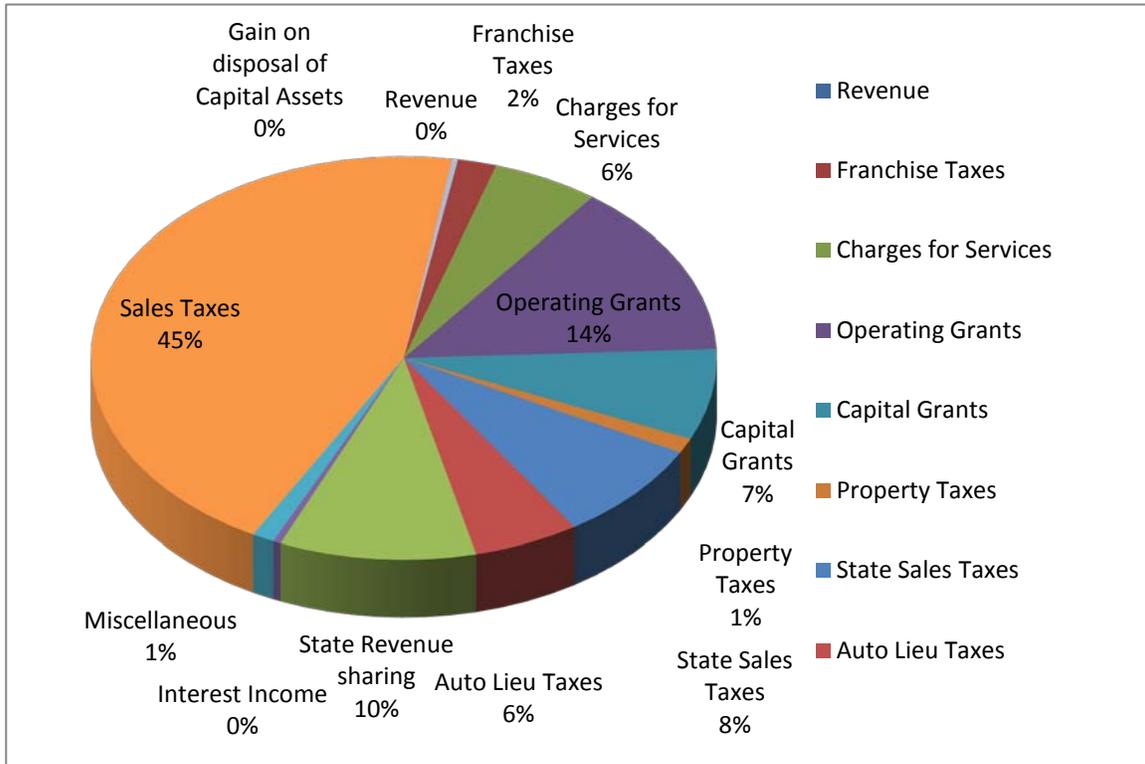
The following graphs compare program expenses to program revenues and provide a breakdown of revenues by source for all governmental activities:

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



CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

Revenue by Source – Governmental Activities

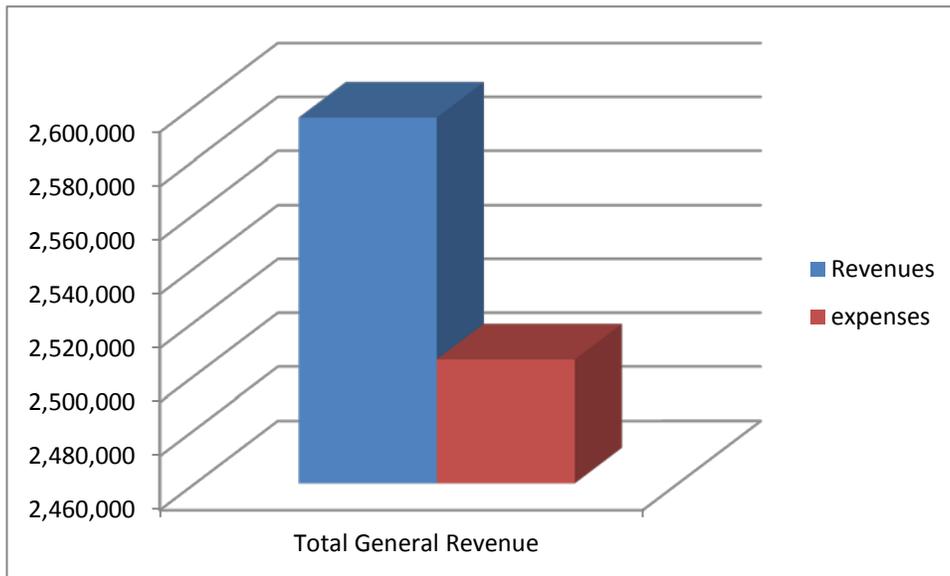


CITY OF HOLBROOK, ARIZONA
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June 30, 2011

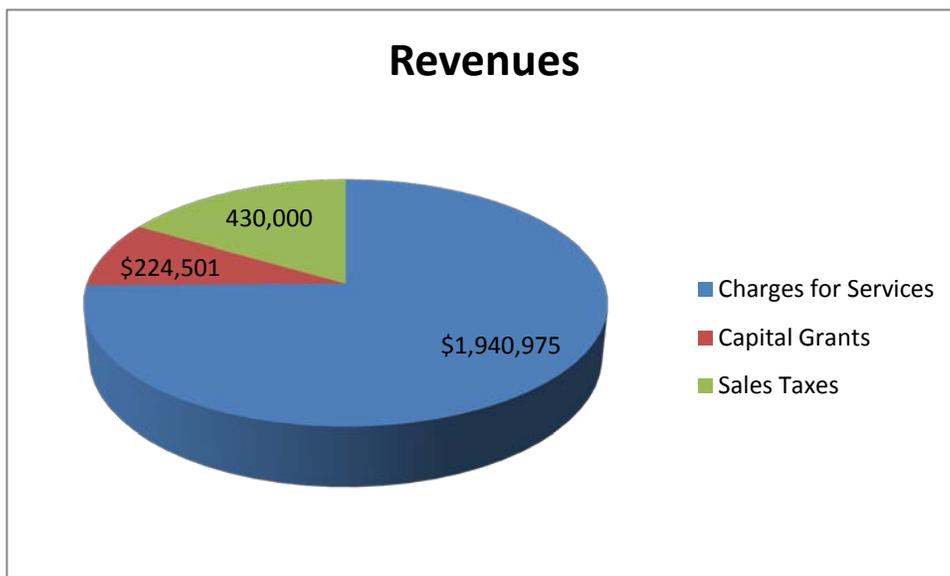
Business-type Activities

Net assets of the Business Type activities at June 30, 2011, as reflected in the Statement of Net Assets were \$8.8 million. The cost of providing all Proprietary (Business-type) activities this year was \$2.5 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$1.9 million and \$224,501 were received through capital grants. Sales taxes, investment earnings and other revenues in were \$430,000. The Net Assets increased by \$89,660. The Golf Course and Airport utility funds were moved to governmental activities for fiscal year 2010.

Expenses and Program Revenues – Business-type Activities



Revenue By Source – Business-type Activities



CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

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 \$1,472,956, a decrease of \$10,416 in comparison with the prior year. Approximately, 95% of this total amount or \$1,397,703 constitutes unassigned fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is restricted or assigned because it has already been assigned 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City of Holbrook. At the end of the current fiscal year, unassigned fund balance in the general fund was \$1,397,703. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Total fund balance and unassigned fund balance represents 37.6% of total general fund expenditures excluding transfers. During the year, the City of Holbrook's general fund balance increased by \$256,489. A key factor in this increase was because the Airport, Golf Course, and Fleet Funds were combined into the General fund and managed better. Even though they are highly unlikely to ever be profitable, management reduced the potential losses by drastically cutting expenses.

The Highway User Revenue Fund has a total fund balance of \$20,616, all of which is restricted for road construction and maintenance. The net decrease in the fund balance during the current year was \$259,587. A key factor in this decrease was because management has decided to use this fund balance and 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, but in more detail. Total net assets of the Utility fund were \$8,755,817 consisting of \$8,146,220 invested in capital assets, net of related debt and \$609,597 in unrestricted net assets. The Golf Course and Airport utility funds were moved to the General fund for fiscal year 2010.

Budgetary Highlights

The General Fund's revenues of \$4,004,338 were less than budgeted revenues of 4,615,360 by \$611,022 and the General Fund's expenditures of \$3,714,704 were less than budgeted expenditures of \$4,585,360 by \$870,656. These two variances were the result of various small differences in budgeted items in both revenues and expenditures as well as differences in capital outlay.

The HURF Special Revenue fund budget variances for revenues and expenditures were the result of The State sweeping LTAF II funds as well as grants that did not occur or were not funded during the fiscal

CITY OF HOLBROOK, ARIZONA
Management's Discussion and Analysis
June 30, 2011

year. Revenues of \$671,638 were less than budgeted revenues of \$916,685 by \$245,047 and expenditures were more than budgeted expenditures of \$916,685 by \$39,974.

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 2011, net capital assets of the government activities totaled \$6.3 million and the net capital assets of the business-type activities totaled \$12.2 million. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See Note 3 to the financial statements.)

Debt

At year-end, the City had \$648,523 in governmental-type debt, and \$4,086,006 in proprietary debt. The governmental-type debt amounts to \$129.11 per capita. During the current fiscal year, the City's total debt decreased by \$120,161. The decrease is the result of regularly scheduled annual debt service payments. Retirements on leases and loans payable were \$542,502 (See Note 5 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2011/2012, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted as a 12.4% decrease from the level of fiscal year 2010/2011.

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 Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,371,911	\$ 181,180	\$ 1,553,091
Taxes receivable	31,000	-	31,000
Due from other governments	347,632	-	347,632
Receivables, net	75,352	174,833	250,185
Inventory	38,192	46,006	84,198
Cash, restricted	-	474,279	474,279
Capital assets, not being depreciated	905,535	274,822	1,180,357
Capital assets, being depreciated, net	5,362,724	11,910,495	17,273,219
Total assets	8,132,346	13,061,615	21,193,961
LIABILITIES			
Accounts payable	215,845	73,952	289,797
Accrued expenses	82,726	19,441	102,167
Customer deposits	-	63,892	63,892
Interest payable	-	62,507	62,507
Noncurrent liabilities			
Due within 1 year	159,875	455,405	615,280
Due in more than 1 year	488,648	3,630,601	4,119,249
Total liabilities	947,094	4,305,798	5,252,892
NET ASSETS			
Invested in capital assets, net of related debt	5,867,934	8,146,220	14,014,154
Restricted for:			
Highways and streets	20,616	-	20,616
Unrestricted (deficit)	1,296,702	609,597	1,906,299
Total net assets	\$ 7,185,252	\$ 8,755,817	\$ 15,941,069

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Activities
Year Ended June 30, 2011

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
		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	\$ 1,083,342	\$ 40,238	\$ -	\$ -	\$(1,043,104)	\$ -	\$ (1,043,104)
Public safety	1,896,603	82,148	44,488	-	(1,769,967)	-	(1,769,967)
Public works and streets	1,310,285	46,768	671,638	373,778	(218,101)	-	(218,101)
Parks and recreation	744,892	113,699	-	-	(631,193)	-	(631,193)
Total governmental activities	5,035,122	282,853	716,126	373,778	(3,662,365)	-	(3,662,365)
Business-type activities							
Utilities	2,505,816	1,940,975	-	224,501	-	(340,340)	(340,340)
Total business-type activities	2,505,816	1,940,975	-	224,501	-	(340,340)	(340,340)
Total primary government	\$ 7,540,938	\$ 2,223,828	\$ 716,126	\$ 598,279	(3,662,365)	(340,340)	(4,002,705)
General revenue:							
Taxes							
Sales taxes					2,252,997	430,000	2,682,997
Property taxes					59,006	-	59,006
Franchise taxes					118,081	-	118,081
State sales tax revenue sharing					412,560	-	412,560
Auto lieu tax revenue sharing					279,129	-	279,129
State revenue sharing					519,569	-	519,569
Interest income					20,441	-	20,441
Miscellaneous					32,568	-	32,568
Gain on disposal of capital assets					14,910	-	14,910
Total general revenue					3,709,261	430,000	4,139,261
Change in net assets					46,896	89,660	136,556
Net assets, July 1, 2010					7,138,356	8,666,157	15,804,513
Net assets, June 30, 2011					\$ 7,185,252	\$ 8,755,817	\$ 15,941,069

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,266,233	\$ 67,376	\$ 38,302	\$ 1,371,911
Taxes receivable	31,000	-	-	31,000
Due from other governments	266,717	54,761	26,154	347,632
Accounts receivable, net	75,352	-	-	75,352
Inventory	38,192	-	-	38,192
Total assets	\$ 1,677,494	\$ 122,137	\$ 64,456	\$ 1,864,087
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 113,372	\$ 94,404	\$ 8,069	\$ 215,845
Accrued expenses	73,859	7,117	1,750	82,726
Deferred revenue	92,560	-	-	92,560
Total liabilities	279,791	101,521	9,819	391,131
Fund balances				
Restricted for:				
Highways and streets	-	20,616	-	20,616
Assigned for:				
Police services	-	-	54,637	54,637
Unassigned	1,397,703	-	-	1,397,703
Total fund balances	1,397,703	20,616	54,637	1,472,956
Total liabilities and fund balances	\$ 1,677,494	\$ 122,137	\$ 64,456	\$ 1,864,087

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2011

Fund balances--total governmental funds		\$ 1,472,956
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p>		6,268,259
<p>Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.</p>		92,560
<p>Some liabilities, including leases payable, are not due and payable in the current period and therefore, are not reported in the funds.</p>		
<p style="padding-left: 40px;">Capital leases payable</p>	(400,325)	
<p style="padding-left: 40px;">Compensated absences</p>	<u>(248,198)</u>	
		<u>(648,523)</u>
Net assets of governmental activities		<u><u>\$ 7,185,252</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, 2011

	General Fund	HURF/LTAF Fund	Grants Fund	Total Governmental Fund
Revenues				
Taxes	\$ 2,416,076	\$ -	\$ -	\$ 2,416,076
Intergovernmental	1,211,258	668,063	418,266	2,297,587
Charges for services	168,011	-	-	168,011
Fines and forfeitures	97,094	-	-	97,094
Other revenue	73,710	3,575	-	77,285
Interest	20,441	-	-	20,441
Licenses, permits and fees	17,748	-	-	17,748
Total revenues	<u>4,004,338</u>	<u>671,638</u>	<u>418,266</u>	<u>5,094,242</u>
Expenditures				
Current				
General government	927,264	-	-	927,264
Public safety	1,637,524	-	103,553	1,741,077
Public works and streets	292,352	450,900	355,176	1,098,428
Parks and recreation	656,465	-	-	656,465
Debt Service				
Principal	38,260	66,906	-	105,166
Interest	2,284	14,651	-	16,935
Capital outlay	160,555	398,768	-	559,323
Total expenditures	<u>3,714,704</u>	<u>931,225</u>	<u>458,729</u>	<u>5,104,658</u>
Excess (deficiency) of revenues over (under) expenditures	<u>289,634</u>	<u>(259,587)</u>	<u>(40,463)</u>	<u>(10,416)</u>
Other financing sources (uses)				
Transfers in	-	-	33,145	33,145
Transfers out	(33,145)	-	-	(33,145)
Total other financing sources (uses)	<u>(33,145)</u>	<u>-</u>	<u>33,145</u>	<u>-</u>
Net change in fund balances	256,489	(259,587)	(7,318)	(10,416)
Fund balances, July 1, 2010	<u>1,141,214</u>	<u>280,203</u>	<u>61,955</u>	<u>1,483,372</u>
Fund balances, June 30, 2011	<u>\$ 1,397,703</u>	<u>\$ 20,616</u>	<u>\$ 54,637</u>	<u>\$ 1,472,956</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, 2011

Net change in fund balances--total governmental funds \$ (10,416)

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	559,323	
Depreciation expense	(524,432)	
		34,891

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	(26,232)	
Decrease in unavailable property taxes	(1,988)	
Increase in unavailable franchise taxes	15,996	
		(12,224)

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.

Decrease in interest payable	680	
Increase in compensated absences	(64,212)	
		(63,532)

Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the Statement of Net Assets.

Principal repaid		98,177

Change in net assets of governmental activities		\$ 46,896

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2011 and 2010

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2011	Utility Fund June 30, 2010
ASSETS		
Current assets		
Cash	\$ 181,180	\$ 23,901
Accounts receivable, net	174,833	198,298
Inventory	46,006	46,006
Total current assets	402,019	268,205
Noncurrent assets		
Restricted cash	474,279	458,623
Assessments receivable	-	19,105
Capital assets, net of accumulated depreciation, where applicable:	12,185,317	12,274,034
Total noncurrent assets	12,659,596	12,751,762
Total assets	13,061,615	13,019,967
LIABILITIES		
Current liabilities		
Accounts payable	73,952	36,117
Accrued expenses	19,441	15,071
Deferred revenue	-	8,498
Customer deposits	63,892	54,326
Accrued interest payable	62,507	67,598
Current portion of long-term debt	455,405	669,256
Total current liabilities	675,197	850,866
Noncurrent liabilities		
Compensated absences	11,909	28,977
Capital leases payable	480,297	310,573
Notes payable	3,138,395	3,163,394
Total noncurrent liabilities	3,630,601	3,502,944
Total liabilities	4,305,798	4,353,810
Net assets		
Invested in capital assets, net of related debt	8,146,220	8,133,213
Unrestricted (deficit)	609,597	532,944
Total net assets	\$ 8,755,817	\$ 8,666,157

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2011 and 2010

	<u>Business-type Activities--Enterprise Funds</u>	
	Utility Fund	Utility Fund
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Operating revenues		
Charges for services	\$ 1,923,725	\$ 1,983,400
Miscellaneous	17,250	34,920
Total operating revenues	<u>1,940,975</u>	<u>2,018,320</u>
Operating expenses		
Personnel	719,678	696,454
Service, supplies and other	949,227	837,840
Depreciation	690,198	698,506
Total operating expenses	<u>2,359,103</u>	<u>2,232,800</u>
Operating income (loss)	<u>(418,128)</u>	<u>(214,480)</u>
Nonoperating revenues (expenses)		
Intergovernmental	430,000	430,000
Interest expense	(146,713)	(148,178)
Total nonoperating revenues (expenses)	<u>283,287</u>	<u>281,822</u>
Income (loss) before contributions, gains, losses, and transfers	(134,841)	67,342
Capital grants	224,501	-
Transfers out	-	(285,387)
Increase (decrease) in net assets	89,660	(218,045)
Total net assets, July 1, 2010	<u>8,666,157</u>	<u>8,884,202</u>
Total net assets, June 30, 2011	<u><u>\$ 8,755,817</u></u>	<u><u>\$ 8,666,157</u></u>

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011 and 2010

	<u>Business-type Activities--Enterprise Funds</u>	
	Utility Fund June 30, 2011	Utility Fund June 30, 2010
Cash flows from operating activities:		
Receipts from customers	\$ 1,984,613	\$ 2,070,727
Payments to suppliers and providers of goods and services	(911,392)	(881,765)
Payments to employees	(725,377)	(744,958)
Net cash provided by (used by) operating activities	347,844	444,004
Cash flows from noncapital financing activities:		
Cash received from other governments	430,000	430,000
Net transfers (to) from other funds	-	(285,387)
Net cash provided by (used by) noncapital financing activities	430,000	144,613
Cash flows from capital and related financing activities:		
Proceeds from capital grants	224,501	-
Purchase of capital assets	(327,140)	(117,417)
Principal paid on notes payable	(350,466)	(359,314)
Interest paid on notes payable	(151,804)	(153,088)
Net cash provided by (used by) capital and related financing activities	(604,909)	(629,819)
Net increase (decrease) in cash and cash equivalents	172,935	(41,202)
Cash and cash equivalents, July 1, 2010	482,524	523,726
Cash and cash equivalents, June 30, 2011	\$ 655,459	\$ 482,524
Cash	\$ 181,180	\$ 23,901
Cash - restricted	474,279	458,623
Cash and cash equivalents, June 30, 2011	\$ 655,459	\$ 482,524

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2011 and 2010
(Continued)

	Business-type Activities--Enterprise Funds	
	Utility Fund June 30, 2011	Utility Fund June 30, 2010
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (418,128)	\$ (214,480)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	690,198	698,506
(Increase) decrease in:		
Accounts receivable	23,465	52,407
Assessment receivable	19,105	-
Increase (decrease) in:		
Accounts payable	37,835	(43,925)
Accrued expenses	4,370	(48,504)
Deferred revenue	(8,498)	-
Customer deposits	9,566	-
Compensated absences payable	(10,069)	-
Net cash provided by (used for) operating activities	\$ 347,844	\$ 444,004
Non-cash investing and financing activities:		
Acquisition of capital assets financed by:		
Capital lease payable	\$ 274,341	\$ -

See accompanying notes to financial statements.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

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 assets 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, 2011

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, 2011 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) and from State of Arizona Local Transportation Assistance Fund (LTAF) which are 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, 2011

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 assets available to finance the program. The City applies grant resources to such programs before using general revenues.

The City's business-type activities follow FASB Statements and Interpretations issued on or after November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 1 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 uncollectible at June 30, 2011, for the Utility Fund was \$142,810.

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.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

H. Capital Assets

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

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, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

K. 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's 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.

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.

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.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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, 2011, the carrying amount of the City’s total nonpooled cash in bank was \$611,902, and the bank balance was \$726,167. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held by the pledging financial institution’s trust department or agent in the City’s name.

Restricted cash – Restricted cash in the Utility Fund consists of cash reserves of \$410,387 required for debt service and \$63,892 reserved for refundable customer deposits.

Investments – At June 30, 2011, the investments consisted of the following:

	Reported Amount	Fair Value	Rating
Investment in State Treasurer's investment pool	\$1,415,068	\$1,415,068	Unrated

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, 2011

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 905,535	-	-	\$ 905,535
Construction in progress	44,184	-	(44,184)	-
Total capital assets not being depreciated	<u>949,719</u>	<u>-</u>	<u>(44,184)</u>	<u>905,535</u>
Capital assets being depreciated:				
Buildings	4,882,130	-	-	4,882,130
Furniture, equipment & vehicles	3,418,719	149,377	(66,159)	3,501,937
Infrastructure - roads	2,293,184	442,952	-	2,736,136
Runway and taxiway	751,057	-	-	751,057
Improvements - other	15,721	11,178	-	26,899
Total	<u>11,360,811</u>	<u>603,507</u>	<u>(66,159)</u>	<u>11,898,159</u>
Less accumulated depreciation for:				
Buildings	(2,013,324)	(182,186)	-	(2,195,510)
Furniture, equipment & vehicles	(2,862,279)	(230,852)	66,159	(3,026,972)
Infrastructure - roads	(448,799)	(109,822)	-	(558,621)
Runway and taxiway	(751,057)	-	-	(751,057)
Improvements - other	(1,703)	(1,572)	-	(3,275)
Total	<u>(6,077,162)</u>	<u>(524,432)</u>	<u>66,159</u>	<u>(6,535,435)</u>
Total capital assets being depreciated, net	<u>5,283,649</u>	<u>79,075</u>	<u>-</u>	<u>5,362,724</u>
Governmental activities capital assets, net	<u>\$ 6,233,368</u>	<u>\$ 79,075</u>	<u>\$ (44,184)</u>	<u>\$ 6,268,259</u>

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 3 – CAPITAL ASSETS – Continued

	<u>Balance</u> <u>July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and water rights	\$ 274,822	-	-	\$ 274,822
Total capital assets not being depreciated	<u>274,822</u>	<u>-</u>	<u>-</u>	<u>274,822</u>
Capital assets being depreciated:				
Utility systems	30,338,662	311,040	-	30,649,702
Furniture, equipment & vehicles	1,956,521	290,441	(9,997)	2,236,965
Total	<u>32,295,183</u>	<u>601,481</u>	<u>(9,997)</u>	<u>32,886,667</u>
Less accumulated depreciation for:				
Utility systems	(18,935,625)	(590,947)	-	(19,526,572)
Furniture, equipment & vehicles	(1,360,346)	(99,251)	9,997	(1,449,600)
Total	<u>(20,295,971)</u>	<u>(690,198)</u>	<u>9,997</u>	<u>(20,976,172)</u>
Total capital assets being depreciated, net	<u>11,999,212</u>	<u>(88,717)</u>	<u>-</u>	<u>11,910,495</u>
Business-type activities capital assets, net	<u>\$ 12,274,034</u>	<u>\$ (88,717)</u>	<u>\$ -</u>	<u>\$ 12,185,317</u>

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 3 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 118,071
Public safety	128,832
Public works and streets	196,314
Parks and recreation	<u>81,215</u>
 Total governmental activities depreciation expense	 <u><u>\$ 524,432</u></u>
 Business-type activities:	
Utility	<u>\$ 690,198</u>
 Total business-type activities depreciation expense	 <u><u>\$ 690,198</u></u>

NOTE 4 – DUE FROM OTHER GOVERNMENTS

Amounts due from other governments in the Governmental Funds consisted of the following:

Description	Governmental Activities
<u>Federal government:</u>	
Federal aviation administration	\$ 8,069
<u>Navajo County:</u>	
Property tax	11,147
<u>State of Arizona:</u>	
City sales tax	162,480
Highway user revenue	54,761
Urban revenue sharing	35,541
State sales tax	33,476
Vehicle license tax	24,073
Block Grant	<u>18,085</u>
	<u><u>\$ 347,632</u></u>

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2011.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due within</u> <u>1 year</u>
Governmental activities:					
Capital leases payable	\$ 498,502	\$ -	\$ (98,177)	\$ 400,325	\$ 74,875
Compensated absences	<u>183,986</u>	<u>120,500</u>	<u>(56,288)</u>	<u>248,198</u>	<u>85,000</u>
Governmental activities long-term liabilities	<u>\$ 682,488</u>	<u>\$ 120,500</u>	<u>\$ (154,465)</u>	<u>\$ 648,523</u>	<u>\$ 159,875</u>
Business-type activities:					
Notes payable	\$ 3,748,959	\$ -	\$ (300,191)	\$ 3,448,768	\$ 310,373
Capital leases payable	366,265	274,341	(50,277)	590,329	110,032
Compensated absences	<u>56,978</u>	<u>27,500</u>	<u>(37,569)</u>	<u>46,909</u>	<u>35,000</u>
Business-type activities long-term liabilities	<u>\$ 4,172,202</u>	<u>\$ 301,841</u>	<u>\$ (388,037)</u>	<u>\$ 4,086,006</u>	<u>\$ 455,405</u>

The following is a listing of Notes payable as of June 30, 2011:

Water Infrastructure Finance Authority loan, issued August 18, 2000, bearing interest at 3.7%, due in semi-annual interest installments and annual principal installments, maturing July 1, 2020.	\$ 3,378,768
Greater Arizona Development Authority (GADA) loan, issued February 15, 2001, bearing interest between 3.35% and 4.5%, due in semi-annual interest installments and annual principal installments, maturing August 1, 2013.	<u>70,000</u>
Total notes payable	3,448,768
Less current portion	<u>(310,373)</u>
Total notes payable net of current portion	<u>\$ 3,138,395</u>

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES – Continued

The debt service requirements to maturity are as follows:

Year Ending June 30	Notes Payable					
	WIFA		GADA		TOTAL	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 285,373	\$ 119,735	\$ 25,000	\$ 2,788	\$ 310,373	\$ 122,523
2013	295,932	108,981	25,000	1,688	320,932	110,669
2014	306,881	97,829	20,000	563	326,881	98,392
2015	318,236	86,264	-	-	318,236	86,264
2016	330,011	74,271	-	-	330,011	74,271
2017 - 2021	1,842,335	175,355	-	-	1,842,335	175,355
Total	<u>\$ 3,378,768</u>	<u>\$ 662,435</u>	<u>\$ 70,000</u>	<u>\$ 5,039</u>	<u>\$ 3,448,768</u>	<u>\$ 667,474</u>

Capital leases – The City has acquired vehicles and equipment under long-term lease agreements classified as capital leases because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term. The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Furniture, equipment, & vehicles	\$ 553,024	709,549
Less: accumulated depreciation	<u>(213,993)</u>	<u>(144,358)</u>
Carrying value	<u>\$ 339,031</u>	<u>\$ 565,191</u>

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2011.

Year Ending June 30	Governmental Activities	Business-type Activities
2012	\$ 88,321	\$ 130,876
2013	88,321	130,876
2014	88,321	130,876
2015	88,321	130,876
2016	88,321	130,876
Total minimum lease payments	441,605	\$ 654,380
Less amount representing interest	(41,280)	(64,051)
Present value of net minimum lease payments	<u>\$ 400,325</u>	<u>\$ 590,329</u>

Interest expense – The total amount of interest expense charged to governmental activities in the Statement of Activities is \$16,255 which is charged as a direct functional expense under general government, \$1,018; public safety, \$6,694; and public works/streets, \$8,543.

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.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 8 – 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 *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. 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.

Cost-sharing plans – For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 percent for long-term disability) of the members’ annual covered payroll. The City was required to contribute 9.85 percent (9.60 percent for retirement, .25 percent for long-term disability) of the members’ annual covered payroll. The City’s contributions to ASRS for the years ended June 30, 2011, 2010, and 2009, were \$125,084, \$142,795, and \$180,400, respectively, which were equal to the required contributions for the year.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent, multiple-employer defined benefit pension plan that covers 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.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
3300 N. Central Ave.
Phoenix, AZ 85012-0250
(602) 240-2000

PSPRS
3010 E. Camelback Rd., Ste. 200
Phoenix, AZ 85016
(602) 255-5575

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

Agent plans – For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll, and the City was required to contribute at the actuarially determined rate of 26.96 percent.

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 8 – RETIREMENT PLANS – Continued

Annual Pension Cost – The City’s pension cost for the agent plan for the year ended June 30, 2011, and related information follows.

	<u>PSPRS</u>
Contribution rates:	
City	26.96%
Plan members	7.65%
Annual pension cost	\$ 232,293
Contributions made	\$ 232,293

The annual required contributions for the PSPRS were determined as part of its June 30, 2011, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8.25 percent investment rate of return and (b) projected salary increases ranging from 5.00 percent to 8.00 percent per year. Both (a) and (b) included an inflation component of 5.00 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 25 years.

Trend Information—Annual pension cost information for the current and 2 preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2011	\$ 232,293	100 %	\$ -
	2010	177,065	100	-
	2009	187,240	100	-

CITY OF HOLBROOK, ARIZONA
Notes to Financial Statements
June 30, 2011

NOTE 9 – INTERFUND BALANCES AND ACTIVITY

Interfund transfers – During the course of normal operations, the City has transactions between funds that include expenditures and transfers of resources primarily to provide services. During the year ended June 30, 2011, the General Fund transferred \$33,145 to the Grants Fund to cover unreimbursable grant expenditures.

CITY OF HOLBROOK, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,347,235	\$ 2,347,235	\$ 2,416,076	\$ 68,841
Intergovernmental	1,225,786	1,225,786	1,211,258	(14,528)
Charges for services	154,100	154,100	168,011	13,911
Fines and forfeitures	85,000	85,000	97,094	12,094
Other revenue	781,239	781,239	73,710	(707,529)
Interest	5,000	5,000	20,441	15,441
Licenses, permits and fees	17,000	17,000	17,748	748
Total revenues	4,615,360	4,615,360	4,004,338	(611,022)
Expenditures				
Current				
General government	1,569,681	1,569,681	927,264	642,417
Public safety	1,850,131	1,850,131	1,637,524	212,607
Public works and streets	408,504	408,504	292,352	116,152
Parks and recreation	666,066	666,066	656,465	9,601
Debt Service				
Principal	42,200	42,200	38,260	3,940
Interest	-	-	2,284	(2,284)
Capital outlay	48,778	48,778	160,555	(111,777)
Total expenditures	4,585,360	4,585,360	3,714,704	870,656
Excess (deficiency) of revenues over (under) expenditures	30,000	30,000	289,634	259,634
Other financing sources (uses)				
Transfers out	(30,000)	(30,000)	(33,145)	(3,145)
Total other financing sources (uses)	(30,000)	(30,000)	(33,145)	(3,145)
Net change in fund balances	-	-	256,489	256,489
Fund balances, July 1, 2010	1,141,214	1,141,214	1,141,214	-
Fund balances, June 30, 2011	\$ 1,141,214	\$ 1,141,214	\$ 1,397,703	\$ 256,489

See accompanying notes to budgetary comparison schedule.

CITY OF HOLBROOK, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
HURF/LTAF Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 666,685	\$ 666,685	\$ 668,063	\$ 1,378
Other revenue	250,000	250,000	3,575	(246,425)
Total revenues	<u>916,685</u>	<u>916,685</u>	<u>671,638</u>	<u>(245,047)</u>
Expenditures				
Current				
Public works and streets	862,385	862,385	450,900	411,485
Debt Service				
Principal	54,300	54,300	66,906	(12,606)
Interest	-	-	14,651	(14,651)
Capital outlay	-	-	398,768	(398,768)
Total expenditures	<u>916,685</u>	<u>916,685</u>	<u>931,225</u>	<u>(14,540)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(259,587)</u>	<u>(259,587)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(259,587)</u>	<u>(259,587)</u>
Fund balances, July 1, 2010	<u>280,203</u>	<u>280,203</u>	<u>280,203</u>	<u>-</u>
Fund balances, June 30, 2011	<u>\$ 280,203</u>	<u>\$ 280,203</u>	<u>\$ 20,616</u>	<u>\$ (259,587)</u>

See accompanying notes to budgetary comparison schedule.

CITY OF HOLBROOK, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 2,243,438	\$ 2,243,438	\$ 418,266	\$ (1,825,172)
Total revenues	<u>2,243,438</u>	<u>2,243,438</u>	<u>418,266</u>	<u>(1,825,172)</u>
Expenditures				
Current				
Public safety	398,438	398,438	103,553	294,885
Public works and streets	1,875,000	1,875,000	355,176	1,519,824
Total expenditures	<u>2,273,438</u>	<u>2,273,438</u>	<u>458,729</u>	<u>1,814,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,000)</u>	<u>(30,000)</u>	<u>(40,463)</u>	<u>(10,463)</u>
Other financing sources (uses)				
Transfers in	30,000	30,000	33,145	3,145
Total other financing sources (uses)	<u>30,000</u>	<u>30,000</u>	<u>33,145</u>	<u>3,145</u>
Net change in fund balances	-	-	(7,318)	(7,318)
Fund balances, July 1, 2010	<u>61,955</u>	<u>61,955</u>	<u>61,955</u>	<u>-</u>
Fund balances, June 30, 2011	<u><u>\$ 61,955</u></u>	<u><u>\$ 61,955</u></u>	<u><u>\$ 54,637</u></u>	<u><u>\$ (7,318)</u></u>

See accompanying notes to budgetary comparison schedule.

CITY OF HOLBROOK, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

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 Councils' 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 Agent Retirement Plans' Funding Progress
June 30, 2011

Public Safety Personnel Retirement System

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)
06/30/11	\$ 2,227,445	\$ 5,322,783	\$ 3,095,338	41.8%	\$ 703,181	440.2%
06/30/10	2,264,752	4,839,057	2,574,305	46.8%	687,806	374.3%
06/30/09	2,194,127	4,483,899	2,289,772	48.9%	734,598	311.7%

SINGLE AUDIT ACT REPORTS SECTION

**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 the financial statements of the City of Holbrook, Arizona, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. 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.

Internal Control Over Financial Reporting

Management of the City of Holbrook, Arizona is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Holbrook, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Holbrook, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Holbrook, Arizona's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be 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 deficiency with finding number **11-04** described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 deficiencies with finding number **11-01** to **11-03** described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

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

The City of Holbrook, Arizona's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Holbrook, Arizona's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City's management, City Council, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

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

December 28, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Holbrook, Arizona

Compliance

We have audited the City of Holbrook, Arizona's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Holbrook, Arizona's major federal programs for the year ended June 30, 2011. The City of Holbrook, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Holbrook, Arizona's management. Our responsibility is to express an opinion on the City of Holbrook, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Holbrook, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Holbrook, Arizona's compliance with those requirements.

In our opinion, the City of Holbrook, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City of Holbrook, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Holbrook, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The City of Holbrook, Arizona's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

This report is intended solely for the information and use of management, the City Council, and federal awarding agencies is not intended to be and should not be used by anyone other than these specified parties.

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

December 28, 2011

CITY OF HOLBROOK, ARIZONA
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<u>U.S. Department of Transportation</u>			
Airport Improvement Program	20.106	3-04-0020-011-2009	\$ 23,513
Airport Improvement Program	20.106	3-04-0020-012-2009	286,420
Airport Improvement Program	20.106	3-04-0020-013-2010	27,481
Total U.S. Department of Transportation			337,414
<u>U.S. Department of Energy</u>			
Passed through AZ Governor's Office of Energy			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	R016-10-27	27,449
Total U.S. Department of Energy			27,449
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Arizona Department of Housing			
CDBG - State-Administered CDBG Cluster:			
Community Development Block Grants	14.228	157-10	224,501
Total U.S. Department of Housing and Urban Development			224,501
Total Federal Assistance			\$ 589,364

The accompanying notes are an integral part of this schedule.

CITY OF HOLBROOK, ARIZONA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2011

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Holbrook, Arizona, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CITY OF HOLBROOK, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2011

Section 1	Summary Of Auditors' Results
<i>Financial Statements</i>	
1. Type of auditor's report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weaknesses?	Yes
b. Significant deficiencies identified not considered to be material weaknesses?	Yes
c. Noncompliance material to the financial statements noted?	No
<i>Federal Awards</i>	
1. Internal control over major program:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified not considered to be material weaknesses?	No
2. Type of auditor's report issued on compliance for major program:	Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510 (a)?	No
4. Identification of major program:	
<u>Name of Federal Program</u>	<u>CFDA Number</u>
Airport Improvement Program	20.106
5. Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	No

CITY OF HOLBROOK, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2011

Financial Statement Findings

Item: 11-01

Subject: Utility billing adjustments.

Condition: During our audit it was noted that the same person who receives cash payments for utilities has the ability to perform billing and payment adjustments.

Recommendation: Managements should segregate these duties. If segregating these duties is not possible, management should designate a responsible employee to review all utility billing adjustments posted in Caselle on a monthly basis.

Response: Management agrees with this finding and will assign a separate employee apart from the cash receipting function and the billing function to review billing adjustments posted in Caselle.

Item: 11-02

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 agrees with this finding and will have check signers review support for each check before signing them. The City will cease using a signature stamp for signing checks. Checks will no longer be returned and mailed by the person preparing them.

CITY OF HOLBROOK, ARIZONA
Schedule of Findings and Questioned Costs
June 30, 2011

Item: 11-03

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 agrees with this finding and will have someone review all monthly reconciliations and sign them to evidence the review.

Item: 11-04

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 review the misstatements that required adjusting journal entries. Management will make corrections in these areas for the next audit.

Federal Award Findings and Questioned Costs

None

CITY OF HOLBROOK, ARIZONA
Summary Schedule of Prior Audit Findings
June 30, 2011

The status of audit findings from the prior year is as follows:

No prior year audit findings.



COLBY &
POWELL, PLC

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**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE USES OF HIGHWAY
USER REVENUE FUND MONIES IN
ACCORDANCE WITH ARS TITLE 28,
CHAPTER 18, ARTICLE 2**

To the City Council
City of Holbrook, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of the City of Holbrook, Arizona as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 28, 2011.

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.

This report is intended solely for the information and use of management and the members of the Arizona State Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

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

December 28, 2011