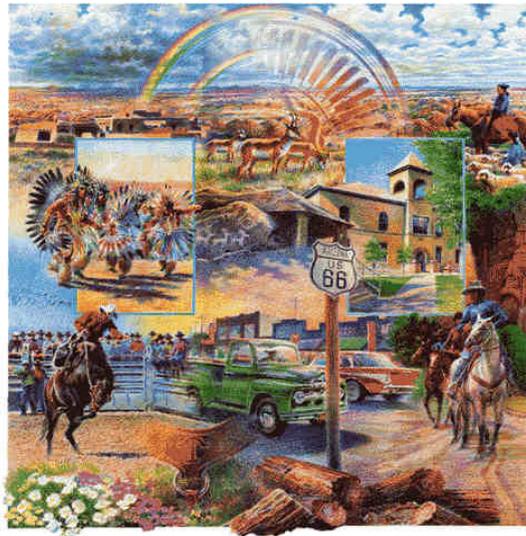


CITY OF HOLBROOK, ARIZONA



FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS

CITY OF HOLBROOK, ARIZONA

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**Independent Auditors' Report on
Financial Statements**

The Honorable Mayor and
City Council
Holbrook, Arizona

We have audited the accompanying financial statements 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 and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City of Holbrook's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information for the proprietary funds has been derived from the City's June 30, 2009 financial statements and, in our report dated January 4, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information.

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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Holbrook as of June 30, 2010, 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 23, 2010, on our consideration of the City of Holbrook' 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 results of that testing, and not to provide an opinion on the 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.

The Management's Discussion and analysis, budgetary comparison schedules, and the Schedule of Agent Retirement Plans' Funding Progress are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Michael K. Spilker, CPA
December 23, 2010

**CITY OF HOLBROOK, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2010**

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, 2010. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Combined total net assets (equity) as of June 30, 2010 for both governmental and business-type activities is \$15,804,513.
- Total governmental expenditures exceeded total governmental revenues and transfers by \$581,339.
- Total business-type expenses exceeded business-type revenues and transfers by \$218,045.
- Total revenues from all sources were \$8 million and the total cost of all City programs was \$8.8 million.
- Fair Market Value of Investments as of June 30, 2010 was \$1,195,658.
- Business type long-term liabilities increased by \$469,720
- Long-term liabilities increased for Governmental activities by \$9,360

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.
- 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 Assets and the Statement of Activities) and governmental funds in a reconciliation included with the Basic Financial Statements and in footnote 2.
- 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.

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 \$15.8 million as of June 30, 2010 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 Activities.

CITY OF HOLBROOK, ARIZONA Statement of Net Assets

	Governmental activities		Business-type activities		Combined Total	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Current and other assets	\$ 1,796,009	\$ 2,165,531	\$ 745,933	\$ 839,542	\$ 2,541,942	\$ 3,005,073
Capital assets	6,233,368	6,839,152	12,274,034	12,953,644	18,507,402	19,792,796
Total assets	<u>8,029,377</u>	<u>9,004,683</u>	<u>13,019,967</u>	<u>13,793,186</u>	<u>21,049,344</u>	<u>22,797,869</u>
Long-term liabilities outstanding	682,488	691,846	4,172,200	4,641,922	4,854,688	5,333,768
Other liabilities	208,533	593,141	181,610	267,062	390,143	860,203
Total liabilities	<u>891,021</u>	<u>1,284,987</u>	<u>4,353,810</u>	<u>4,908,984</u>	<u>5,244,831</u>	<u>6,193,971</u>
Net assets:						
Invested in capital assets, net of related debt	5,550,880	6,147,306	8,133,213	8,270,077	13,684,093	14,417,383
Restricted	342,838	367,746	-	-	342,838	367,746
Unrestricted	<u>1,244,638</u>	<u>1,204,644</u>	<u>532,944</u>	<u>614,125</u>	<u>1,777,582</u>	<u>1,818,769</u>
Total net assets	<u>\$ 7,138,356</u>	<u>\$ 7,719,696</u>	<u>\$ 8,666,157</u>	<u>\$ 8,884,202</u>	<u>\$ 15,804,513</u>	<u>\$ 16,603,898</u>

Governmental Activities

The cost of all Governmental activities this year was \$6.45 million. As shown on the statement of Changes in Net Assets on the following page, \$287,076 of this cost was paid for by those who directly benefited from the programs, \$1,192,071 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 \$1,479,147. General taxes, State Revenue Sharing and investment earnings totaled \$4.1 million.

The City's programs include: General Government, Public Safety, Public Works/Streets, and Culture & Recreation. Each program's revenues and expenses are presented below.

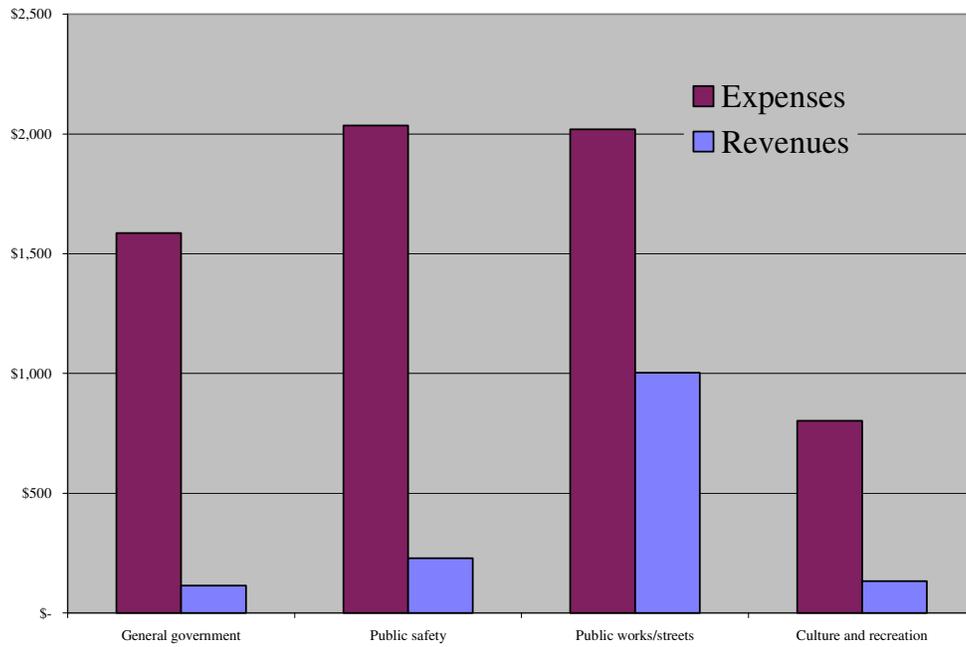
CITY OF HOLBROOK, ARIZONA
Changes in Net Assets

	Governmental activities		Business-type activities		Combined Total	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Revenues:						
Program revenues:						
Charges for services	\$ 287,076	\$ 117,819	\$ 2,018,320	\$ 2,206,333	\$ 2,305,396	\$ 2,324,152
Operating grants and contributions	881,301	828,482	-	-	881,301	828,482
Capital grants and contributions	310,770	35,665	-	168,908	310,770	204,573
General revenues:						
Taxes	3,373,000	2,850,902	430,000	791,248	3,803,000	3,642,150
State revenue sharing	686,060	802,536	-	-	686,060	802,536
Other revenue/(expense)	50,675	857,015	-	(841,781)	50,675	15,234
Total revenues	5,588,882	5,492,419	2,448,320	2,324,708	8,037,202	7,817,127
Expenses:						
General government	1,586,297	1,066,509	-	-	1,586,297	1,066,509
Public safety	2,035,735	2,079,058	-	-	2,035,735	2,079,058
Public works/Streets	2,019,374	1,398,942	-	-	2,019,374	1,398,942
Culture and recreation	803,482	639,271	-	-	803,482	639,271
Utilities	-	-	2,380,978	2,957,710	2,380,978	2,957,710
Golf course	-	-	-	402,701	-	402,701
Airport	-	-	-	170,679	-	170,679
Interest on long term debt	10,720	-	-	-	10,720	-
Total expenses	6,455,608	5,183,780	2,380,978	3,531,090	8,836,586	8,714,870
Increase (Decrease) in net assets						
before transfers	(866,726)	308,639	67,342	(1,206,382)	(799,384)	(897,743)
Transfers	285,387	(790,208)	(285,387)	790,208	-	-
Increase (Decrease) in net assets	(581,339)	(481,569)	(218,045)	(416,174)	(799,384)	(897,743)
Net assets, beginning	7,719,695	8,201,265	8,884,202	9,300,376	16,603,897	17,501,641
Net assets, ending	\$ 7,138,356	\$ 7,719,696	\$ 8,666,157	\$ 8,884,202	\$ 15,804,513	\$ 16,603,898

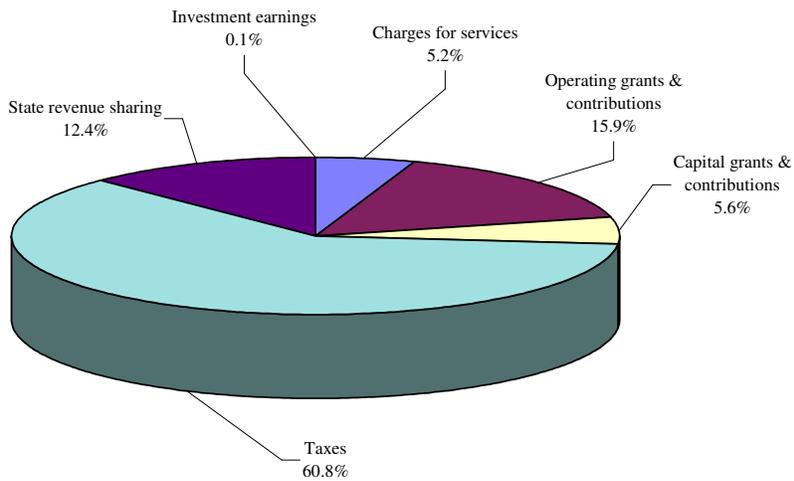
Total resources available during the year to finance governmental operations were \$13.3 million consisting of Net assets at July 1, 2009 of \$7.7 million, program revenues of \$1,479,147 and General Revenues of \$4.1 million plus transfers in of \$285,387. Total Governmental Activities during the year were \$6.45 million; thus Governmental Net Assets were decreased by \$581,339 to \$7.1 million. As reflected above, governmental revenues decreased slightly and governmental activities increased mainly due to public works expenditures as compared to the prior year.

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

Expenses and Program Revenues - Governmental Activities
(in Thousands)



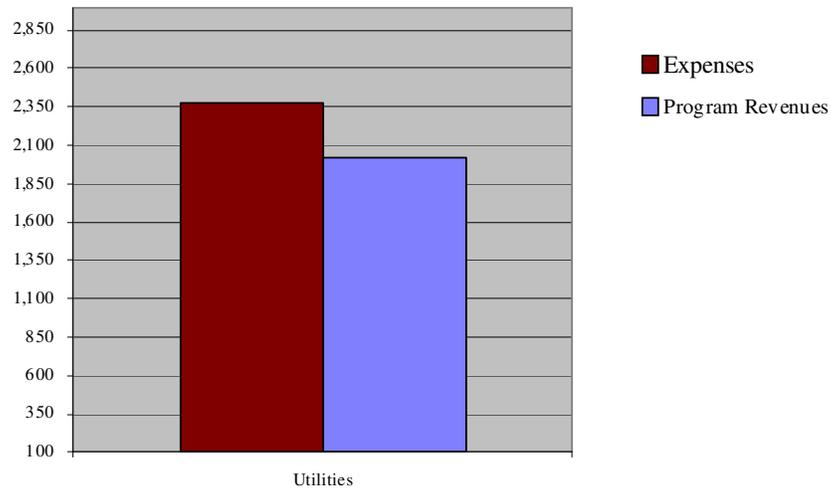
Revenue By Source - Governmental Activities



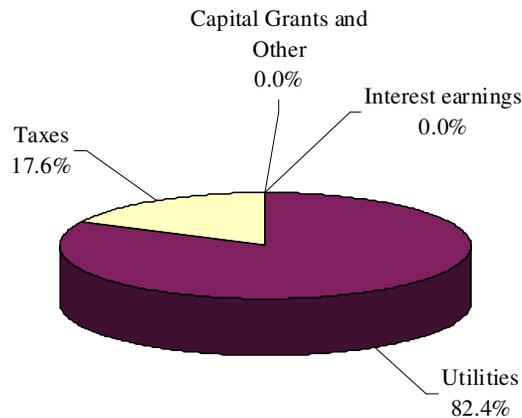
Business Type Activities

Net assets of the Business Type activities at June 30, 2010, as reflected in the Statement of Net Assets were \$8.6 million. The cost of providing all Proprietary (Business Type) activities this year was \$2.4 million. As shown in the statement of Changes in Net Assets, the amounts paid by users of the system were \$2 million and there were no capital grants and contributions. Sales taxes, investment earnings and other revenues in were \$430,000. Transfers out were \$285,387. The Net Assets decreased by \$218,045. The Golf Course and Airport utility funds were moved to governmental activities for fiscal year 2010.

Expenses and Program Revenues - Business-type Activities
(in Thousands)



Revenue By Source - Business-type Activities



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, unreserved 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 \$1,483,372, a decrease of \$32,738 in comparison with the prior year. Approximately, 77% of this total amount or \$1,141,214 constitutes unreserved, undesignated fund balance, which is available for new spending at the government's discretion. The remainder of the fund balance is reserved or designated because it has already 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, unreserved, undesignated fund balance in the general fund was \$1,141,214. As a measure of liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Total fund balance and unreserved, undesignated fund balance represents 23.7% of total general fund expenditures excluding transfers. During the year, the City of Holbrook's general fund balance increased by \$34,961. 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 \$280,203, all of which is reserved for road construction and maintenance. The net decrease in the fund balance during the current year was \$86,862.

The Grants Fund's most significant grant activity during the year was \$250,380 for Airport grants. The fund balance was increased by \$19,163 to \$61,955.

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 \$8,666,157 consisting of \$8,133,213 invested in capital assets, net of related debt and \$532,944 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 \$4,564,299 were less than budgeted revenues of 5,383,985 by \$819,686 and the General Fund's expenditures of \$4,805,822 were less than budgeted expenditures of \$5,873,341 by \$1,067,519. These two variances were mainly the result of the sanitation department budget of approximately \$650,000 for both revenues and expenditures that was originally budgeted in the general fund but was actually recorded in the utility fund and various small differences in budgeted items in both revenues and expenditures.

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 year. Revenues of \$670,742 were less than budgeted revenues of \$963,897 by \$293,155 and expenditures were less than budgeted expenditures of \$1,206,221 by \$448,617.

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 2010, net capital assets of the government activities totaled \$6.2 million and the net capital assets of the business-type activities totaled \$12.3 million. Depreciation on capital assets for both government activities and business-type activities is recognized in the Government-Wide financial statements. (See note 5 to the financial statements.)

Debt

At year-end, the City had \$682,488 in governmental type debt, and \$4,172,202 in proprietary debt. The debt is a liability of the government and amounts to \$135.10 per capita. During the current fiscal year, the City's total debt decreased by \$469,720. The decrease is the result of regularly scheduled annual debt service payments. Retirements on leases and loans payable were \$477,848 (See note 6 to the financial statements for detailed descriptions.)

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City Budget for fiscal year 2010/2011, the City Council and management were cautious as to the growth of revenues and expenditures. Overall General Fund operating expenditures were budgeted as a 21% decrease from the level of fiscal year 2009/2010.

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.

BASIC FINANCIAL STATEMENTS

CITY OF HOLBROOK, ARIZONA
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 912,432	\$ 23,901	\$ 936,333
Receivables (net of allowance)	581,605	198,298	779,903
Inventory	15,512	46,006	61,518
Temporarily restricted assets:			
Cash and cash equivalents	286,460	458,623	745,083
Note receivable	-	19,105	19,105
Capital assets (net of accumulated depreciation):			
Land	905,535	274,822	1,180,357
Land improvements	14,018	-	14,018
Buildings	2,868,806	-	2,868,806
Distribution systems	-	11,403,037	11,403,037
Infrastructure/roads	1,844,385	-	1,844,385
Furniture, equipment & vehicles	556,440	596,175	1,152,615
Construction in progress	44,184	-	44,184
Total assets	<u>8,029,377</u>	<u>13,019,967</u>	<u>21,049,344</u>
Liabilities			
Accounts payable and other current liabilities	207,853	114,012	321,865
Interest payable	680	67,598	68,278
Noncurrent liabilities:			
Due within one year	193,535	669,256	862,791
Due in more than one year	488,953	3,502,944	3,991,897
Total liabilities	<u>891,021</u>	<u>4,353,810</u>	<u>5,244,831</u>
Net Assets			
Invested in capital assets, net of related debt	5,550,880	8,133,213	13,684,093
Restricted for:			
Debt service	680	-	680
Highways and streets	280,203	-	280,203
Other purposes	61,955	-	61,955
Unrestricted	1,244,638	532,944	1,777,582
Total Net Assets	<u>\$ 7,138,356</u>	<u>\$ 8,666,157</u>	<u>\$ 15,804,513</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,586,297	\$ -	\$ 115,000	\$ -	\$ (1,471,297)	\$ -	\$ (1,471,297)
Public safety	2,035,735	96,642	95,919	35,854	(1,807,320)	-	(1,807,320)
Public works/streets	2,019,374	57,871	670,382	274,916	(1,016,205)	-	(1,016,205)
Culture and recreation	803,482	132,563	-	-	(670,919)	-	(670,919)
Interest on long-term debt	10,720	-	-	-	(10,720)	-	(10,720)
Total governmental activities	<u>6,455,608</u>	<u>287,076</u>	<u>881,301</u>	<u>310,770</u>	<u>(4,976,461)</u>	<u>-</u>	<u>(4,976,461)</u>
Business-type activities:							
Utilities	2,380,978	2,018,320	-	-	-	(362,658)	(362,658)
Total business-type activities	<u>2,380,978</u>	<u>2,018,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(362,658)</u>	<u>(362,658)</u>
Total primary government	<u>\$ 8,836,586</u>	<u>\$ 2,305,396</u>	<u>\$ 881,301</u>	<u>\$ 310,770</u>	<u>(4,976,461)</u>	<u>(362,658)</u>	<u>(5,339,119)</u>
General Revenues:							
Taxes:							
City sales tax					2,476,136	430,000	2,906,136
State sales tax					398,116	-	398,116
Property tax					57,901	-	57,901
Franchise taxes					158,238	-	158,238
Auto lieu tax					282,609	-	282,609
State sales taxes - revenue sharing					686,060	-	686,060
Unrestricted investment earnings					7,218	-	7,218
Gain on sale of capital assets					43,457	-	43,457
Transfers					285,387	(285,387)	-
Total general revenues & transfers					<u>4,395,122</u>	<u>144,613</u>	<u>4,539,735</u>
Change in net assets					(581,339)	(218,045)	(799,384)
Net assets - beginning					<u>7,719,695</u>	<u>8,884,202</u>	<u>16,603,897</u>
Net assets - ending					<u>\$ 7,138,356</u>	<u>\$ 8,666,157</u>	<u>\$ 15,804,513</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2010

Assets	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Grants</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 912,432	\$ -	\$ -	\$ 912,432
Receivables:				
Other	138,686	-	-	138,686
Intergovernmental	319,485	64,958	58,476	442,919
Inventory	15,512	-	-	15,512
Restricted cash and investments	-	228,720	57,740	286,460
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 1,386,115</u>	<u>\$ 293,678</u>	<u>\$ 116,216</u>	<u>\$ 1,796,009</u>
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 70,280	\$ 9,706	\$ 53,100	\$ 133,086
Accrued wages and benefits	69,837	3,769	1,161	74,767
Deferred revenue	104,784	-	-	104,784
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>244,901</u>	<u>13,475</u>	<u>54,261</u>	<u>312,637</u>
Fund Balances:				
Reserved	-	280,203	61,955	342,158
Unreserved/undesignated	1,141,214	-	-	1,141,214
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,141,214</u>	<u>280,203</u>	<u>61,955</u>	<u>1,483,372</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 1,386,115</u>	<u>\$ 293,678</u>	<u>\$ 116,216</u>	<u>\$ 1,796,009</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2010

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

Total governmental fund balances	\$	1,483,372
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental capital assets	\$	12,310,530
Accumulated depreciation		<u>(6,077,162)</u>
		6,233,368
Some receivables are not available to pay for current period expenditures and therefore, are deferred in the funds.		
		104,784
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable	\$	(498,502)
Interest payable		(680)
Compensated absences		<u>(183,986)</u>
		(683,168)
Total net assets of governmental activities	<u>\$</u>	<u>7,138,356</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds
For the Year Ended June 30, 2010

REVENUES	<u>General</u>	<u>Highway Users Revenue Fund</u>	<u>Grants</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 2,688,205	\$ -	\$ -	\$ 2,688,205
Licenses, permits and fees	9,811	-	-	9,811
Intergovernmental revenue	1,481,646	670,381	403,865	2,555,892
Charges for services	174,252	-	-	174,252
Fines and forfeitures	50,625	-	-	50,625
Interest	7,218	-	-	7,218
Other revenues	152,542	361	-	152,903
Total Revenues	<u>4,564,299</u>	<u>670,742</u>	<u>403,865</u>	<u>5,638,906</u>
 EXPENDITURES				
Current:				
General government	1,397,368	-	-	1,397,368
Public safety	1,776,789	-	125,932	1,902,721
Public works/streets	837,773	571,129	267,673	1,676,575
Culture and recreation	723,972	-	-	723,972
Capital outlay	30,777	127,666	-	158,443
Debt Service				
Principal	34,859	52,373	-	87,232
Interest	4,284	6,436	-	10,720
Total Expenditures	<u>4,805,822</u>	<u>757,604</u>	<u>393,605</u>	<u>5,957,031</u>
Excess of Revenues Over (Under) Expenditures	<u>(241,523)</u>	<u>(86,862)</u>	<u>10,260</u>	<u>(318,125)</u>
 Other Financing Sources (Uses):				
Transfers in	285,387	-	8,903	294,290
Transfers out	(8,903)	-	-	(8,903)
Total Other Financing Sources (Uses)	<u>276,484</u>	<u>-</u>	<u>8,903</u>	<u>285,387</u>
Net change in fund balances	34,961	(86,862)	19,163	(32,738)
Fund balances, beginning of year	<u>1,106,253</u>	<u>367,065</u>	<u>42,792</u>	<u>1,516,110</u>
Fund balances, end of year	<u>\$ 1,141,214</u>	<u>\$ 280,203</u>	<u>\$ 61,955</u>	<u>\$ 1,483,372</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2010

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

Net change in fund balances - total governmental funds	\$	(32,738)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital outlay	\$	110,745
Depreciation expense		<u>(550,166)</u>
		(439,421)
<p>Governmental funds report the gross proceeds from the sale of capital assets as revenue. However, in the statement of activities, the gain on the sale of capital assets is reported net of its net book value.</p>		
		(167,035)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds until they are received.</p>		
Current year change in deferred property taxes receivable		4,069
Current year payments on installment land sales.		(54,094)
<p>Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
		118,532
<p>Compensated absences 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.</p>		
		(10,652)
Change in net assets of governmental activities	<u>\$</u>	<u>(581,339)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Net Assets
Proprietary Funds
June 30, 2010 and 2009

	Business-type Activities	
	Enterprise Funds	
	Utility Fund Current Year	Utility Fund Prior Year
Assets		
Current Assets:		
Cash	\$ 23,901	\$ 113,339
Receivables (net of allowance)	198,298	181,014
Taxes receivable	-	69,691
Inventory	46,006	46,006
Total Current Assets	<u>268,205</u>	<u>410,050</u>
Noncurrent Assets:		
Restricted cash and investments	458,623	410,387
Assessments receivable	19,105	19,105
Land	274,822	274,822
Collection and distribution systems	30,338,662	29,498,293
Furniture, equipment and vehicles	1,956,521	2,102,678
Construction in progress	-	775,388
Accumulated depreciation	<u>(20,295,971)</u>	<u>(19,697,537)</u>
Total Noncurrent Assets	<u>12,751,762</u>	<u>13,383,136</u>
Total Assets	<u>\$ 13,019,967</u>	<u>\$ 13,793,186</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 36,117	\$ 80,041
Accrued liabilities	15,071	15,775
Deferred revenue	8,498	8,498
Customer deposits	54,326	90,240
Accrued interest payable	67,598	72,508
Current portion of long-term debt	<u>669,256</u>	<u>393,911</u>
Total Current Liabilities	<u>850,866</u>	<u>660,973</u>
Noncurrent liabilities (net of current portion):		
Compensated absences	28,977	30,863
Loans payable	3,163,394	3,753,959
Capital leases payable	<u>310,573</u>	<u>463,189</u>
Total Noncurrent Liabilities	<u>3,502,944</u>	<u>4,248,011</u>
Total Liabilities	<u>4,353,810</u>	<u>4,908,984</u>
Net Assets		
Invested in capital assets, net of related debt	8,063,213	8,270,077
Unrestricted	<u>602,944</u>	<u>614,125</u>
Total net assets	<u>\$ 8,666,157</u>	<u>\$ 8,884,202</u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Statement Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2010 and 2009

	Business-type Activities Enterprise Funds	
	Utility Fund Current Year	Utility Fund Prior Year
Operating Revenues		
Charges for services	\$ 1,983,400	\$ 1,984,881
Other revenues	34,920	35,626
Total Operating Revenues	2,018,320	2,020,507
Operating Expenses		
Salaries	440,474	504,052
Employee benefits	255,980	273,646
Service, supplies and other	837,840	1,365,778
Depreciation	698,506	663,941
Total Operating Expenses	2,232,800	2,807,417
Operating Income (Loss)	(214,480)	(786,910)
Non-operating Revenues (Expenses)		
Intergovernmental	430,000	791,248
Interest expense and fiscal charges	(148,178)	(150,293)
Connection fees	-	15,773
Total Non-Operating Revenue (Expense)	281,822	656,728
Income (loss) before contributions and transfers	67,342	(130,182)
Contributions and Transfers:		
Capital grants	-	73,163
Transfers out	(285,387)	(184,517)
Change in net assets	(218,045)	(241,536)
Total net assets, beginning of year	8,884,202	9,125,738
Total net assets, end of year	\$ 8,666,157	\$ 8,884,202

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010 and 2009

	Utility Fund Current Year	Utility Fund Prior Year
Cash Flows From Operating Activities:		
Cash received from customers, service fees	\$ 2,035,807	\$ 2,208,294
Cash received from customers, other	34,920	35,626
Cash paid to suppliers	(881,765)	(1,488,131)
Cash paid to employees	(744,958)	(752,734)
Net cash flows from operating activities	<u>444,004</u>	<u>3,055</u>
Cash Flows From Noncapital Financing Activities:		
Proceeds/Payments (to)/from other funds	-	48,620
Cash received from other governments	430,000	791,248
Transfers (to)/from other funds	(285,387)	(184,517)
Net cash flows from noncapital financing activities	<u>144,613</u>	<u>655,351</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from capital debt	-	533,728
Purchase of capital assets	(117,417)	(1,145,006)
Principal paid on notes, leases and bonds	(359,314)	(20,000)
Interest paid	(153,088)	(77,785)
Capital grants	-	73,163
Connection & impact fees	-	15,773
Net cash flows from capital and related financing activities	<u>(629,819)</u>	<u>(620,127)</u>
Net change in Cash and Cash Equivalents	(41,202)	38,279
Cash and cash equivalents, including temporarily restricted cash, beginning of year	<u>523,726</u>	<u>485,447</u>
Cash and cash equivalents, including temporarily restricted cash, end of year	<u><u>\$ 482,524</u></u>	<u><u>\$ 523,726</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Net Operating Income (Loss)	\$ (214,480)	\$ (786,910)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation/amortization	698,506	663,941
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	52,407	223,413
Increase/(Decrease) in payables	(43,925)	(122,353)
Increase/(Decrease) in accrued liabilities	(48,504)	24,964
Net cash flows from operating activities	<u><u>\$ 444,004</u></u>	<u><u>\$ 3,055</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

General

The accounting policies of the City of Holbrook, Arizona (the City) conform to U.S. generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

The City is a general purpose local government that is governed by a separately elected city council. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. However, the City has no component units and thus, there are no component units presented in these financial statements. The financial statements include all funds and account groups that account for activities over which the City's elected council exercise primary financial management and oversight responsibility.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of the inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes, if applicable, are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, state shared revenues, intergovernmental grants and aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 for those required to be accounted for in another fund.

The **Highway User Special Revenue Fund** accounts for revenue sources that are legally restricted for road construction and maintenance.

The **Grants Special Revenue Fund** is used to account for various federal and state grants and other contributions that are restricted for use.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Proprietary funds account 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 services 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.

The City reports the following major proprietary funds:

The **Utility Fund** accounts for operations associated with providing water, sewer, and trash collection to the general public.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted assets are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Deposits and Investments

The City's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

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.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to" or "due from other funds. All trade accounts receivable in the enterprise funds are shown net of an 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, 2010, for the Utility Fund was \$136,734.

Inventories

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

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	25 - 50 years
Buildings	25 - 50 years
Utility systems	25 - 50 years
Land improvements	15 - 20 years
Equipment	5 - 15 years
Vehicles	5 - 10 years
Furniture and fixtures	5 - 15 years

Compensated Absences

Compensated absences consist of vacation leave and 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, a portion of the sick leave benefits is accrued as a liability in the financial statements based on an estimate or assumption of one third of all employees retiring.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies, Continued

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the City.

Note 2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets. The details of these differences are reported in the reconciliation on page 15.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. These differences are the result of converting from the current resources measurement focus and modified accrual basis for governmental fund statements to the economic resources measurement focus and full accrual basis used for government-wide statements. The details of these differences are reported in the reconciliation on page 17.

Note 3. Stewardship, Compliance, and Accountability

Stewardship, compliance, and accountability are key concepts in defining the responsibilities of the City. The use of budgets and monitoring of equity status facilitate the City's compliance with legal requirements.

Budgets and Budgetary Accounting

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain public comment.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 3. Stewardship, Compliance, and Accountability, Continued

3. Prior to the third Monday in August, the expenditure limitation for the City is legally enacted through passage of an ordinance. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).
4. The City follows a voter-approved alternative expenditure limitation that was adopted on December 18, 2008.
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds. The City Manager subject to City Council approval, may at any time transfer any unencumbered appropriation balance or portion thereof between a department or activity. The adopted budget cannot be amended in any way without City Council approval.
6. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for Cities and Towns. This law does not permit the City to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. The City complied with this law during the year.

Expenditures over Appropriations

Expenditures may not legally exceed budgeted appropriations at the department level. The individual Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual reports as listed in the table of contents present all of the departments which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2010, if any. Supplementary budgetary appropriations were made during the year.

Taxes

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.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 4. Deposits and Investments

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.

A reconciliation of cash and investments as shown on the statement of net assets follows:

Cash and cash equivalents	\$ 936,333
Restricted cash and cash equivalents	<u>745,083</u>
Total	<u><u>\$ 1,681,416</u></u>

Restricted cash consists of the following at June 30, 2010:

Highway User Revenue funds	\$ 228,720
Grants and other	57,740
Utility fund - debt service reserve	<u>458,623</u>
Total Restricted Cash and Investments	<u><u>\$ 745,083</u></u>

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The City does not have a formal policy for custodial credit risk. At June 30, 2010 cash on hand was \$400 and the carrying amount of the City's deposits was \$485,758. As of June 30, 2010, \$0 of the City's bank balance of \$251,525 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Arizona State Treasurer's Office operates the Local Government Investment Pool (LGIP). The LGIP is available for investment of funds administered by any Arizona Public Treasurer.

The LGIP is not registered with the SEC as an investment company. Deposits in the LGIP are not insured or otherwise guaranteed by the State of Arizona, and participants share proportionally in any realized gain or losses on investments. The provisions of State law (A.R.S. 35-323) govern the investment of funds in excess of \$100,000. A.R.S. 35-323 allows for investment in certificates of deposit, interest bearing savings accounts, repurchase agreements with a maximum maturity of 180 days, pooled investment funds established by the State Treasurer, obligations guaranteed by the United States, bonds of the State of Arizona or other local municipalities, commercial paper of prime quality that is rated "P1" by Moody's investors or "A1" by Standard and Poor's rating service, and bonds, debentures or notes that are issued by corporations organized and doing business in the United States subject to certain restrictions. For investments of less than \$100,000, procedures as specified by local ordinance or resolution must be followed.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 4. Deposits and Investments, Continued

As of June 30, 2010 the government had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
State Treasurer's Investment Pool	\$ 1,195,658	\$ 1,195,658	\$ -	\$ -	\$ -
	<u>\$ 1,195,658</u>	<u>\$ 1,195,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the provisions of State law (A.R.S. 35-323) which requires that the City's investment portfolio maturities do not exceed five years from the time of purchase.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing its exposure to credit risk is to comply with State law (A.R.S. 35-323) which limits investment in commercial paper and corporate bonds to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's and Moody's Investor Services.

At June 30, 2010 the City had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
State Treasurer's Investment Pool	\$ 1,195,658	\$ -	\$ -	\$ -	\$ 1,195,658
Total Fair Value	<u>\$ 1,195,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,195,658</u>

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 5. Capital Assets

The following table summarizes the changes to capital assets for governmental activities during the year.

Governmental Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets, not being depreciated:				
Land	\$ 1,003,385	\$ -	\$ (97,850)	\$ 905,535
Construction in progress	167,035	44,184	(167,035)	44,184
Total capital assets, not being depreciated	<u>1,170,420</u>	<u>44,184</u>	<u>(264,885)</u>	<u>949,719</u>
Capital assets, being depreciated:				
Improvements other than buildings	15,721	-	-	15,721
Buildings and improvements	4,826,364	55,766	-	4,882,130
Runway and taxiway	751,057	-	-	751,057
Furniture, equipment & vehicles	3,711,279	109,317	(401,877)	3,418,719
Infrastructure - roads	2,293,184	-	-	2,293,184
Total capital assets, being depreciated	<u>11,597,605</u>	<u>165,083</u>	<u>(401,877)</u>	<u>11,360,811</u>
Less accumulated depreciation for:				
Improvements other than buildings	(131)	(1,572)	-	(1,703)
Buildings and improvements	(1,829,589)	(183,735)	-	(2,013,324)
Runway and taxiway	(751,057)	-	-	(751,057)
Furniture, equipment & vehicles	(3,009,119)	(255,037)	401,877	(2,862,279)
Infrastructure - roads	(338,977)	(109,822)	-	(448,799)
Total accumulated depreciation	<u>(5,928,873)</u>	<u>(550,166)</u>	<u>401,877</u>	<u>(6,077,162)</u>
Total capital assets, being depreciated, net	<u>5,668,732</u>	<u>(385,083)</u>	<u>-</u>	<u>5,283,649</u>
Governmental activities capital assets, net	<u>\$ 6,839,152</u>	<u>\$ (340,899)</u>	<u>\$ (264,885)</u>	<u>\$ 6,233,368</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Governmental Activities:	
General government	\$ 114,954
Public safety	146,960
Public works/streets	205,138
Culture & recreation	83,114
Total depreciation expense - governmental activities	<u>\$ 550,166</u>

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 5. Capital Assets, Continued

The following table summarizes the changes to capital assets for business-type activities during the year.

Business Type Activities:	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Capital assets not being depreciated:				
Land and water rights	\$ 274,822	\$ -	\$ -	\$ 274,822
Construction in progress	775,388	-	(775,388)	-
Total capital assets, not being depreciated	<u>1,050,210</u>	<u>-</u>	<u>(775,388)</u>	<u>274,822</u>
Capital assets being depreciated:				
Utility systems	29,498,293	840,369	-	30,338,662
Furniture, Equipment & Vehicles	2,102,678	46,689	(192,846)	1,956,521
Total capital assets, being depreciated	<u>31,600,971</u>	<u>887,058</u>	<u>(192,846)</u>	<u>32,295,183</u>
Less accumulated depreciation for:				
Utility systems	(18,346,859)	(588,766)	-	(18,935,625)
Furniture, Equipment & Vehicles	(1,350,678)	(109,740)	100,072	(1,360,346)
Total accumulated depreciation	<u>(19,697,537)</u>	<u>(698,506)</u>	<u>100,072</u>	<u>(20,295,971)</u>
Total capital assets, being depreciated, net	<u>11,903,434</u>	<u>188,552</u>	<u>(92,774)</u>	<u>11,999,212</u>
Business-type activities capital assets, net	<u>\$ 12,953,644</u>	<u>\$ 188,552</u>	<u>\$ (868,162)</u>	<u>\$ 12,274,034</u>

Depreciation expense was charged to the functions/programs of the City as follows:

Business-Type Activities:	
Utility	\$ 698,506
Total depreciation expense - business-type activities	<u>\$ 698,506</u>

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 6. Long-Term Debt

The following is a summary of changes in long-term obligations during the year:

Governmental Activities:	Balance 6/30/2009	Additions	Retirements	Adjustments	Balance 6/30/2010	Current Portion
Capital leases payable	\$ 518,515	\$ -	\$ (118,534)	\$ 98,521	\$ 498,502	\$ 103,535
Compensated Absences	173,333	100,642	(89,989)	-	183,986	90,000
Governmental Activity Long-Term Liabilities	<u>\$ 691,848</u>	<u>\$ 100,642</u>	<u>\$ (208,523)</u>	<u>\$ 98,521</u>	<u>\$ 682,488</u>	<u>\$ 193,535</u>
Business-type Activities:						
WIFA loan payable	\$ 3,919,331	\$ -	\$ (265,372)	\$ -	\$ 3,653,959	\$ 560,564
GADA loan payable	120,000	-	(25,000)	-	95,000	25,000
Capital Leases	533,728	-	(68,942)	(98,521)	366,265	55,692
Compensated Absences	68,863	29,767	(41,652)	-	56,978	28,000
Business-Type Activity Long-Term Liabilities	<u>\$ 4,641,922</u>	<u>\$ 29,767</u>	<u>\$ (400,966)</u>	<u>\$ (98,521)</u>	<u>\$ 4,172,202</u>	<u>\$ 669,256</u>

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 6. Long-Term Debt, Continued

The following is a listing of long-term debt outstanding as of June 30, 2010:

Loan Payable:

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. \$ 3,653,959

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 95,000

Total loans payable	3,748,959
Less current portion	<u>(585,564)</u>
Total loans net of current portion	<u><u>\$ 3,163,395</u></u>

Loan debt service maturities are as follows:

Year Ended <u>June 30,</u>	Business-Type Activities		
	Principal	Interest	Total
2011	\$ 300,191	\$ 134,024	\$ 434,215
2012	310,373	122,523	432,896
2013	320,932	110,669	431,601
2014	326,881	98,392	425,273
2015	318,236	86,264	404,500
2016-2020	1,776,759	242,308	2,019,067
2021	<u>395,587</u>	<u>7,318</u>	<u>402,905</u>
Total	<u><u>\$3,748,959</u></u>	<u><u>\$ 801,498</u></u>	<u><u>\$ 4,550,457</u></u>

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 7. Capital Leases

The City has entered into lease agreements which are considered to be capital leases in accordance with Financial Accounting Standard Board statement number 13. The leases are for the purchase of furniture, equipment, and vehicles. The leases have an interest rate of 2.499%, 3.204%, and 4.34%.

A summary of assets acquired through capital leases follows:

	Cost	Accumulated Depreciation
Governmental Activities		
Furniture, equipment & vehicles	676,343	233,521
Business Type Activities		
Furniture, equipment & vehicles	435,207	87,316
Total assets acquired through leases	1,111,550	320,837

The following schedule details debt service requirements to maturity for the City's capital leases payable at June 30, 2010:

Year Ended June 30,	Governmental Activities	Business-type Activities
2011	\$ 121,666	\$ 69,108
2012	87,887	69,108
2013	87,887	69,108
2014	87,887	69,108
2015	87,887	69,108
2016	87,887	69,108
Total remaining minimum lease payments:	561,101	414,648
Less: amount representing interest:	(62,599)	(48,383)
Present value of remaining minimum lease payments:	\$ 498,502	\$ 366,265

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 8. Interfund Receivables, Payables and Transfers

As of June 30, 2010, there were no interfund receivables or payables.

Interfund transfers for the year ended June 30, 2010 were as follows:

Transfers In	Transfers Out		Total
	General Fund	Utility Fund	
General Fund	\$ -	\$ 285,387	\$ 285,387
Grants Fund	8,903	-	8,903
	\$ 8,903	\$ 285,387	\$ 294,290

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 9. Equity Classifications

Equity is classified in the government-wide financial statements as net assets and is displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.

In the fund financial statements governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Note 10. Retirement and Pension Plans

The Arizona State Retirement System (ASRS)

Plan Description – The City contributes to a cost-sharing multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System (ASRS). The plan covers employees of the State of Arizona and participating political subdivisions and school districts. The ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. 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 comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy – The Arizona State Legislature establishes and may amend active plan members’ and the City’s contribution rates. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement, and 0.5 percent for long-term disability) of the members’ annual covered payroll and the City was required to contribute 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 percent for long-term disability) of the members’ annual covered payroll.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 10. Retirement and Pension Plans, Continued

The Arizona State Retirement System (ASRS), continued

The City's contributions for the current and two previous fiscal years were equal to the required contributions and were as follows:

Year Ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2008	\$ 132,511	\$ 17,284	\$ 8,230
2009	152,529	18,326	9,545
2010	120,734	14,506	7,555

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. The PSPRS, acting as a common investment 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 for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy – For the current fiscal year, active PSPRS member employees were required by statute to contribute 7.65 percent of their annual covered salary to the PSPRS and the City was required to contribute 20.77 percent, the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The health insurance premium portion of the contribution rate was actuarially set at 0.51 percent of covered payroll.

Actuarial Methods and Assumptions – The significant actuarial methods and assumptions used for the PSPRS plan and related benefits (unless noted), and the actuarial assumptions used to establish the contribution requirements are as follows:

The PSPRS contribution requirements for the year ended June 30, 2010 were established by the June 30, 2009 actuarial valuations using the projected unit credit method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 to 8.50 percent per year. 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 an closed basis. The remaining amortization period at June 30, 2010, was 26 years for unfunded actuarial accrued liability and 20 years for excess.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 10. Retirement and Pension Plans, Continued

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board. 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 progress presented as required supplementary information on page 41 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.

Annual Pension/OPEB Cost – During the year ended June 30, 2010, the City's annual pension cost of \$168,775 and the annual OPEB cost of \$8,290 was equal to the City's required and actual contributions.

Plan	Year Ended June 30,	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/ OPEB Obligation
Pension	2008	\$ 146,829	100%	-
	2009	176,675	100%	-
	2010	168,775	100%	-
Health Insurance	2008	\$ 11,298	100%	\$ -
	2009	10,565	100%	-
	2010	8,290	100%	-

Note 11. 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; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

The Arizona Municipal Risk Retention Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the pool to meet its expected financial obligations. The pool has the authority to assess its member's additional premiums should reserves and annual premiums be insufficient to meet the pool's obligations.

The City is insured by Municipal Workers Compensation for potential worker related accidents with a limit for coverage of \$1,000,000.

CITY OF HOLBROOK, ARIZONA
Notes to the Financial Statements
June 30, 2010

Note 12. Commitments and Contingencies

The City is involved in various matters of litigation. Any pending or threatened litigation is not measurable and can not be estimated as of the date of the financial statements. It is the opinion of City officials that none of these cases would have a material effect on the City's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLBROOK, ARIZONA
Required Supplementary Information
Schedule of Funding Progress
June 30, 2010

Public Safety Personnel Retirement System

Valuation Date <u>June 30.</u>	Actuarial Value of <u>Assets</u>	(AAL) Actuarial Accrued <u>Liability</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
2003	\$ 2,653,945	\$ 3,217,913	\$ 563,968	82.5%	\$ 622,481	90.6%
2004	2,638,738	3,667,037	1,028,299	72.0%	648,844	158.5%
2005	2,377,029	3,815,611	1,438,582	62.3%	634,220	226.8%
2006	2,239,748	3,907,058	1,667,310	57.3%	682,479	244.3%
2007	2,094,845	4,160,622	2,065,777	50.3%	669,310	308.6%
2008 *	2,062,707	4,187,091	2,124,384	49.3%	733,647	289.6%
2009 *	2,194,127	4,483,899	2,289,772	48.9%	734,598	311.7%
2010 *	2,264,752	4,839,057	2,574,305	46.8%	687,806	374.3%

* - For fiscal years prior to 2008 (which were prior to the implementation of GASB Nos. 43 and 45), the pension and health insurance benefit amounts were aggregated. In fiscal year 2008, 2009 and 2010, GASB Statement Nos. 43 and 45 measurements are made and reported; thus, these benefits are disaggregated and reported separately.

Post-retirement health insurance subsidy measurements under GASB Statement No. 45

Valuation Date <u>June 30.</u>	Actuarial Value of <u>Assets</u>	(AAL) Actuarial Accrued <u>Liability</u>	Unfunded AAL <u>(UAAL)</u>	Funded <u>Ratio</u>	Annual Covered <u>Payroll</u>	UAAL as a Percentage of Covered <u>Payroll</u>
2006	\$ 0	\$ 127,884	\$ 127,884	0.00%	\$ 682,479	18.74%
2007	0	74,631	74,631	0.00%	669,310	11.15%
2008	0	61,838	61,838	0.00%	733,647	8.43%
2009	0	59,346	59,346	0.00%	734,598	8.08%
2010	0	100,558	100,558	0.00%	687,806	14.62%

Health Insurance Subsidy payments reported for fiscal year 2010: \$1,560.

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CITY OF HOLBROOK, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
MAJOR GOVERNMENTAL FUNDS:

General Fund – Detail Budget and Actual

The **General Fund** is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditures for a particular purpose.

- The **Highway User Revenue Fund** (Streets) is used to account for the City's share of motor fuel tax revenues and lottery proceeds which are legally restricted for the construction and maintenance of roads and streets.
- The **Grants Fund** is used to account for various federal and state grants and other contributions that are restricted for specific use.

CITY OF HOLBROOK, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

REVENUES:	Budget		Actual	Variance with
	Original	Final		Final Budget
Taxes:				
City sales tax	\$ 2,440,000	\$ 2,440,000	\$ 2,353,319	\$ (86,681)
Property taxes	58,078	58,078	53,832	(4,246)
Franchise taxes	150,985	150,985	158,238	7,253
Lodgers tax	155,000	155,000	122,816	(32,184)
Total Taxes	2,804,063	2,804,063	2,688,205	(115,858)
Licenses, Permits and Fees:				
Building, gas and electric permits	20,000	20,000	9,811	(10,189)
Total Licenses, Fees and Permits	20,000	20,000	9,811	(10,189)
Intergovernmental:				
State sales taxes	417,076	417,076	398,116	(18,960)
State revenue sharing	700,404	700,404	686,060	(14,344)
Auto lieu tax	280,000	280,000	282,470	2,470
Navajo County Flood Control District	115,000	115,000	115,000	-
Total Intergovernmental	1,512,480	1,512,480	1,481,646	(30,834)
Charges for Services:				
Airport	92,000	92,000	47,700	(44,300)
Cemetery fees	16,000	16,000	14,727	(1,273)
Golf course	126,000	126,000	95,476	(30,524)
Park, swimming pool & recreation fees	13,100	13,100	16,349	3,249
Sanitation	682,700	682,700	-	(682,700)
Total Charges for Services	929,800	929,800	174,252	(755,548)
Fines and Forfeitures:				
Fines & forfeitures	50,750	50,750	50,625	(125)
Total Fines and Forfeitures	50,750	50,750	50,625	(125)
Interest				
Interest income	25,500	25,500	7,218	(18,282)
Total Interest	25,500	25,500	7,218	(18,282)
Other Revenues:				
Sale of assets	13,992	13,992	54,094	40,102
Miscellaneous	27,400	27,400	98,448	71,048
Total Other Revenues	41,392	41,392	152,542	111,150
TOTAL REVENUES	5,383,985	5,383,985	4,564,299	(819,686)

(continued)

CITY OF HOLBROOK, ARIZONA
GENERAL FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010 (Continued)

EXPENDITURES	Budget		Actual	Variance with Final Budget
	Original	Final		
General Government:				
Council	55,048	55,048	51,004	4,044
Administration	965,267	965,267	923,690	41,577
Magistrate	25,000	25,000	24,786	214
Finance	191,595	191,595	178,471	13,124
Lodgers	155,000	155,000	130,565	24,435
Community development	87,551	122,287	88,852	33,435
Total General Government	<u>1,479,461</u>	<u>1,514,197</u>	<u>1,397,368</u>	<u>116,829</u>
Public safety:				
Law enforcement	1,673,080	1,673,080	1,665,135	7,945
Fire	150,548	150,548	111,654	38,894
Total Public Safety	<u>1,823,628</u>	<u>1,823,628</u>	<u>1,776,789</u>	<u>46,839</u>
Public Works/Streets:				
Public works	131,707	131,707	110,688	21,019
Fleet maintenance	115,435	115,435	103,481	11,954
Levee	332,203	310,843	489,984	(179,141)
Airport	166,477	166,477	133,620	32,857
Sanitation	668,367	655,241	-	655,241
Total Public Works/Streets	<u>1,414,189</u>	<u>1,379,703</u>	<u>837,773</u>	<u>541,930</u>
Culture & Recreation:				
Library	244,959	244,959	189,244	55,715
Parks	334,109	334,109	260,306	73,803
Golf course	390,605	390,605	264,285	126,320
Senior center	12,500	12,500	10,137	2,363
Total Culture and Recreation	<u>982,173</u>	<u>982,173</u>	<u>723,972</u>	<u>258,201</u>
Capital outlay	<u>66,340</u>	<u>66,340</u>	<u>30,777</u>	<u>35,563</u>
Debt Service:				
Principal	107,300	107,300	34,859	72,441
Interest	-	-	4,284	(4,284)
Total Debt Service	<u>107,300</u>	<u>107,300</u>	<u>39,143</u>	<u>68,157</u>
TOTAL EXPENDITURES	<u>5,873,091</u>	<u>5,873,341</u>	<u>4,805,822</u>	<u>1,067,519</u>
Excess of Revenues Over (Under) Expenditures	<u>(489,106)</u>	<u>(489,356)</u>	<u>(241,523)</u>	<u>247,833</u>
Other Financing Sources (Uses):				
Transfers in	586,312	586,312	285,387	(300,925)
Transfers out	(96,956)	(96,956)	(8,903)	88,053
Total Other Financing Sources (Uses)	<u>489,356</u>	<u>489,356</u>	<u>276,484</u>	<u>(212,872)</u>
Net change in fund balance	<u>250</u>	<u>-</u>	<u>34,961</u>	<u>34,961</u>
Fund balance, beginning of year	<u>1,106,253</u>	<u>1,106,253</u>	<u>1,106,253</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,106,503</u>	<u>\$ 1,106,253</u>	<u>\$ 1,141,214</u>	<u>\$ 34,961</u>

CITY OF HOLBROOK, ARIZONA
HIGHWAY USER REVENUE SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue:				
Highway user revenues	\$ 689,421	\$ 689,421	\$ 649,045	\$ (40,376)
Local transportation assistance funds	24,476	24,476	21,336	(3,140)
Total Intergovernmental	713,897	713,897	670,381	(43,516)
Other revenue:				
Miscellaneous	250,000	250,000	361	(249,639)
Total Revenue	963,897	963,897	670,742	(293,155)
EXPENDITURES:				
Public Works:				
Salaries	216,920	216,920	191,671	25,249
Employee benefits	115,975	115,975	102,334	13,641
Services, supplies, and other	629,026	629,026	277,124	351,902
Capital outlay	190,000	190,000	127,666	62,334
Debt Service:				
Principal	54,300	54,300	52,373	1,927
Interest	-	-	6,436	(6,436)
Total Expenditures	1,206,221	1,206,221	757,604	448,617
Excess of Revenues Over (Under) Expenditures	(242,324)	(242,324)	(86,862)	155,462
Other Financing Sources (Uses):				
Transfers out	(42,038)	(42,038)	-	42,038
Total Other Financing Sources (Uses):	(42,038)	(42,038)	-	42,038
Net change in fund balance	(284,362)	(284,362)	(86,862)	197,500
Fund balance, beginning of year	367,065	367,065	367,065	-
Fund balance, end of year	\$ 82,703	\$ 82,703	\$ 280,203	\$ 197,500

CITY OF HOLBROOK, ARIZONA
GRANTS SPECIAL REVENUE FUND
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2010

	Budget		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue:				
Federal, state and other grants	\$ 3,275,825	\$ 3,275,825	\$ 403,865	\$ (2,871,960)
Total Revenue	<u>3,275,825</u>	<u>3,275,825</u>	<u>403,865</u>	<u>(2,871,960)</u>
EXPENDITURES:				
General government	8,641	8,641	-	8,641
Public safety	684,281	684,281	125,932	558,349
Public works	2,721,897	2,721,897	267,673	2,454,224
Total Expenditures	<u>3,414,819</u>	<u>3,414,819</u>	<u>393,605</u>	<u>3,021,214</u>
Excess of Revenues Over (Under) Expenditures	<u>(138,994)</u>	<u>(138,994)</u>	<u>10,260</u>	<u>149,254</u>
Other Financing Sources (Uses):				
Transfers in	<u>138,994</u>	<u>138,994</u>	<u>8,903</u>	<u>(130,091)</u>
Total Other Financing Sources (Uses):	<u>138,994</u>	<u>138,994</u>	<u>8,903</u>	<u>(130,091)</u>
Net change in fund balance	-	-	19,163	19,163
Fund balance, beginning of year	<u>42,792</u>	<u>42,792</u>	<u>42,792</u>	<u>-</u>
Fund balance, end of year	<u>\$ 42,792</u>	<u>\$ 42,792</u>	<u>\$ 61,955</u>	<u>\$ 19,163</u>

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS



**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***

The Honorable Mayor and
 City Council
 City of Holbrook, Arizona

We have audited the basic financial statements of the City of Holbrook, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. 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

In planning and performing our audit, we considered the City of Holbrook' 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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 schedule of findings and recommendations letter dated December 23, 2010, 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 following deficiencies which are described in the schedule of findings and recommendations letter dated December 23, 2010 to be material weaknesses.

08-1. Misstatements Requiring Adjustments

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 following deficiencies which are described in the schedule of findings and recommendations letter dated December 23, 2010 to be significant deficiencies.

09-1. Capital Assets

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

We noted certain other matters that we have reported to the management of the City in the schedule of findings and recommendations dated December 23, 2010.

This report is intended solely for the information of the mayor, audit committee, management, and various federal and state agencies, and is not intended to be an should not be used by anyone other than these specified part parties. However, this report is a matter of public record and its distribution is not limited.



Michael K. Spilker, CPA
December 23, 2010



**Independent Auditors' Report on
 State Legal Compliance**

The Honorable Mayor and
 City Council
 City of Holbrook, Arizona

We have audited the basic financial statements of the City of Holbrook, Arizona for the year ended June 30, 2010, and have issued our report thereon dated December 23, 2010. Our audit also included test work on the City of Holbrook's compliance with selected requirements identified in the State of Arizona Revised Statutes and the Arizona State Constitution including, but not limited to, Title 28, Chapter 18, Article 2.

The management of the City of Holbrook is responsible for the City's compliance with all requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit; accordingly, we make the following statements:

The City of Holbrook has established separate funds to account for Highway User Revenue funds and Local Transportation Assistance funds. Highway user revenue fund monies received by the City of Holbrook pursuant to Title 28, Chapter 18, Article 2 and other dedicated state transportation revenues received during the current fiscal year appear to have been used solely for authorized purposes. The funds are administered in accordance with Generally Accepted Accounting Principles. Sources of revenues available and fund balances are reflected in the individual fund financial statements.

Our opinion regarding the City's compliance with annual expenditure limitations has been issued separately with the City's Annual Expenditure Limitation Report.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the City of Holbrook complied, in all material respects, with the requirements identified above for the year ended June 30, 2010.

Michael K. Spilker, CPA
 December 23, 2010

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