

CITY OF HOLBROOK, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2021

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Holbrook, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Holbrook, Arizona as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Holbrook, Arizona's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Holbrook, Arizona, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedules, Schedule of the City's Proportionate Share of the Net Pension/OPEB Liability – Cost-Sharing Pension Plans, Schedule of Changes in the City's Net Pension/OPEB Liability and Related Ratios – Agent Pension Plans, and the Schedule of City Pension/OPEB Contributions as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2021, on our consideration of the City of Holbrook, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Holbrook, Arizona's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Holbrook, Arizona's internal control over financial reporting and compliance.

Other Reporting Required by Arizona Revised Statutes

In connection with our audit, nothing came to our attention that caused us to believe that the City failed to use highway user revenue fund monies received by the City pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the City solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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

October 19, 2021

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

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, 2021. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- Total governmental fund balances of \$3,941,612, an increase of \$859,477
- Total General Fund revenues exceeded total General Fund expenditures by \$872,238
- Fair market value of the City's LGIP investments as of June 30, 2021 was \$1,702,843
- The City is debt free except for net pension liabilities and is working towards paying those liabilities down.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are: (1) government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole. (2) Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. (3) Notes to the financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position and the Statement of Activities report the City's net position and changes in them. Net position, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. However, it is important to consider other non-financial factors such as changes in the condition of the City's roads to accurately assess the overall health of the City.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

The Statement of Net Position and the Statement of Activities, present information about the following:

- Government activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works/streets, culture and recreation, economic development, health and welfare and interest on long-term debt. Sales taxes, state revenue sharing, intergovernmental revenues and charges for services finance most of these activities.
- Proprietary activities/business-type activities – The City charges a fee to customers to cover most of the cost of the services provided.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes many other funds which aid in the management of money for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two major kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

- Governmental funds – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Government fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the basic financial statements.
- Proprietary funds – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the City's financial position. The City's combined assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$11.7 million as of June 30, 2021 as shown in the following condensed statement of net position. The City has chosen to account for its water, sewer, and sanitation operations in enterprise funds which are shown as business-type activities.

CITY OF HOLBROOK, ARIZONA
Condensed Statement of Net Position

	Governmental activities		Business-type activities		Combined Total	
	6/30/2021	6/30/2020	6/30/2021	6/30/2020	6/30/2021	6/30/2020
Current and other assets	\$ 4,236,704	\$ 3,513,294	\$ 503,222	\$ 435,670	\$ 4,739,926	\$ 3,948,964
Capital assets	10,656,545	10,623,360	6,323,858	6,851,409	16,980,403	17,474,769
Total assets	14,893,249	14,136,654	6,827,080	7,287,079	21,720,329	21,423,733
Deferred outflows of resources	2,173,425	1,791,015	156,226	101,936	2,329,651	1,892,951
Current liabilities	302,884	457,028	1,436,675	254,023	1,739,559	711,051
Non-current liabilities	9,691,006	9,487,215	832,152	2,167,630	10,523,158	11,654,845
Total liabilities	9,993,890	9,944,243	2,268,827	2,421,653	12,262,717	12,365,896
Deferred inflows of resources	82,050	208,528	15,813	69,500	97,863	278,028
Net position:						
Net investment in capital assets	10,656,545	10,623,216	6,323,858	6,851,409	16,980,403	17,474,625
Restricted	558,569	654,050	138,179	266,223	696,748	920,273
Unrestricted	(4,224,380)	(5,502,368)	(1,763,371)	(2,219,770)	(5,987,751)	(7,722,138)
Total net position	\$ 6,990,734	\$ 5,774,898	\$ 4,698,666	\$ 4,897,862	\$ 11,689,400	\$ 10,672,760

Governmental Activities

The cost of all governmental activities this year was \$6.1 million. As shown on the Statement of Activities, \$217,648 of this cost was paid for by those who directly benefited from the programs; \$1.2 million was subsidized by grants and other contributions received for both capital and operating activities. Overall governmental program revenues, including intergovernmental aid and fees for services was \$1.4 million. General taxes, state revenue sharing and investment earnings totaled \$5.9 million.

The City's programs include: general government, public safety, public works and streets, parks and recreation, and welfare. Each program's net cost (total cost less revenues generated by the activities) is presented. The net cost shows the extent to which the City's general taxes support each of the City's programs.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

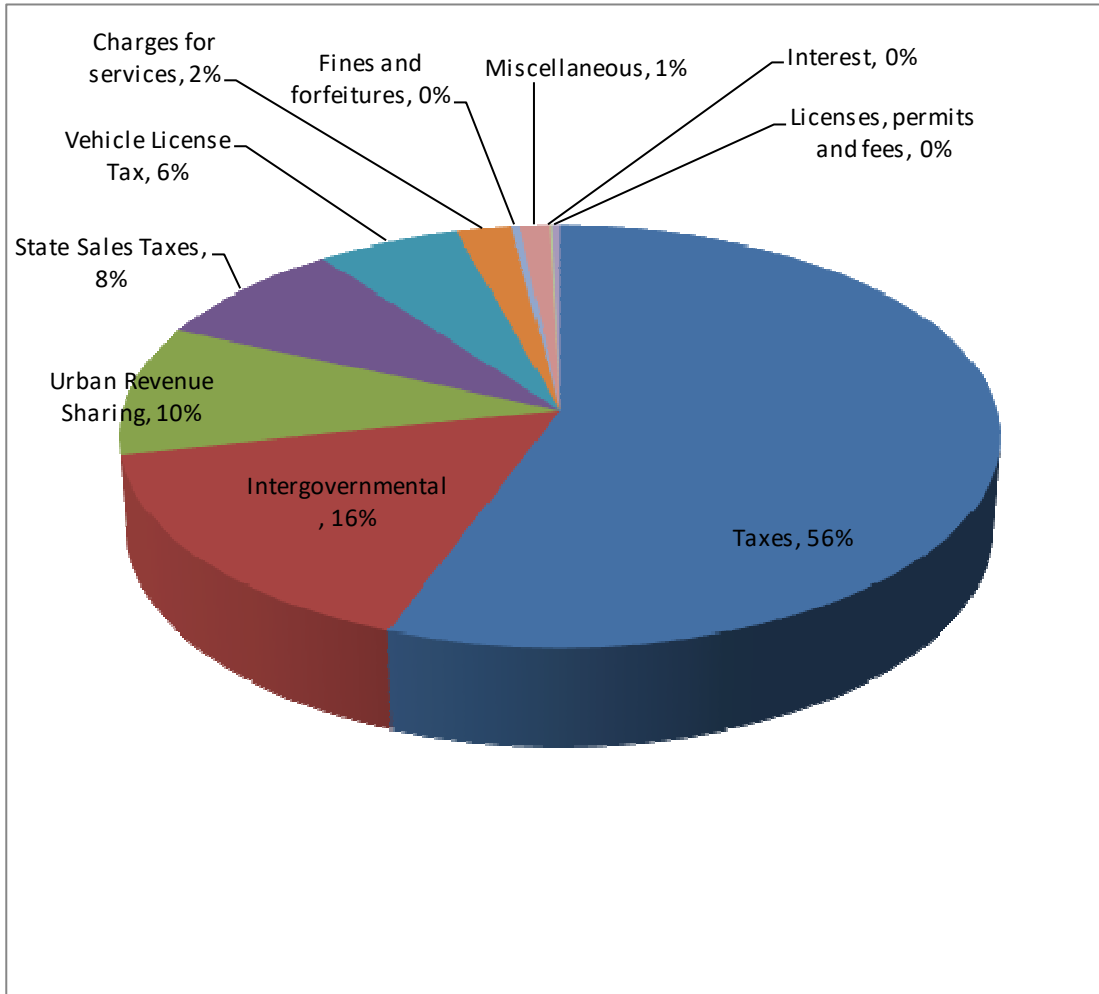
CITY OF HOLBROOK, ARIZONA
Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	6/30/21	6/30/20	6/30/21	6/30/20	6/30/21	6/30/20
Revenues						
Program revenues						
Fees, fines, and charges for services	\$ 217,648	\$ 209,765	\$ 2,092,571	\$ 2,060,687	\$ 2,310,219	\$ 2,270,452
Operating grants and contributions	915,264	1,603,146	-	-	915,264	1,603,146
Capital grants and contributions	260,642	3,078,550	105,558	105,139	366,200	3,183,689
General revenues						
Local taxes	4,073,746	3,573,902	-	-	4,073,746	3,573,902
State-shared revenues	1,761,246	1,533,238	-	-	1,761,246	1,533,238
Investment earnings	6,432	26,505	-	-	6,432	26,505
Miscellaneous	151,882	25,186	-	-	151,882	25,186
Total revenues	7,386,860	10,050,292	2,198,129	2,165,826	9,584,989	12,216,118
Expenses						
General government	1,126,959	858,152	-	-	1,126,959	858,152
Public safety	2,684,307	2,664,086	-	-	2,684,307	2,664,086
Public works and streets	1,155,908	1,027,356	-	-	1,155,908	1,027,356
Parks and recreation	1,056,158	991,503	-	-	1,056,158	991,503
Welfare	83,857	70,478	-	-	83,857	70,478
Utilities	-	-	2,397,325	2,797,647	2,397,325	2,797,647
Total expenses	6,107,189	5,611,575	2,397,325	2,797,647	8,504,514	8,409,222
Change in net position before transfers	1,279,671	4,438,717	(199,196)	(631,821)	1,080,475	3,806,896
Transfers	-	(398,648)	-	398,648	-	-
Change in net position	1,279,671	4,040,069	(199,196)	(233,173)	1,080,475	3,806,896
Net position, beginning of year	5,774,898	1,734,829	4,897,862	5,131,035	10,672,760	6,865,864
Net position, end of year	\$ 7,054,569	\$ 5,774,898	\$ 4,698,666	\$ 4,897,862	\$ 11,753,235	\$ 10,672,760

**City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021**

The following shows revenues by source for all governmental activities:

Revenues by Source – Governmental Activities



Business-type Activities

Net position of the business-type activities at June 30, 2021, as reflected in the Statement of Net Position was \$4.7 million. The cost of providing all business-type activities this year was \$2.4 million. As shown in the Statement of Activities, the amounts paid by users of the system were \$2.1 million. Net position decreased by \$199,196.

Financial Analysis of the Government's Funds

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

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

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 \$3,941,612, an increase of \$859,477 in comparison with the prior year. \$3,366,103 of the ending fund balance constitutes unassigned fund balance, which is available for new spending at the government's discretion. \$16,940 of the ending fund balance is currently unspendable because they are not in spendable form such as fund balance associated with inventories and prepaids. \$558,569 of the fund balance is restricted meaning it has been committed 1) to pay debt service, 2) to pay for capital improvements or 3) for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City of Holbrook. At the end of the current fiscal year, unassigned fund balance in the General Fund was \$3,327,990. 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 64.7% and 63.3% respectively of total General Fund expenditures. During the year, the City of Holbrook's General Fund balance increased by \$936,073.

The Highway User Revenue Fund has a total fund balance of \$502,139. The net increase in the fund balance during the current year was \$17,501.

Proprietary funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements as the business-type activities, but in more detail. Total net position of the proprietary funds was \$4.7 million consisting of \$6.3 million net investment in capital assets, \$138,179 of restricted net position, and \$(1.8 million) deficit in unrestricted net position.

Budgetary Highlights

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

The General Fund's revenues of \$6,133,282 were more than budgeted revenues of \$5,310,135 by \$823,147 and the General Fund's expenditures of \$5,261,044 were less than budgeted expenditures of \$5,343,543 by \$82,499.

HURF Revenues of \$851,255 were more than budgeted revenues of \$784,963 by \$66,292 and expenditures of \$833,754 were less than budgeted expenditures of \$886,626 by \$52,872.

City of Holbrook, Arizona
Management's Discussion and Analysis
June 30, 2021

Grant Revenues of \$274,653 were less than budgeted revenues of \$624,300 by \$349,647 and expenditures of \$368,750 were less than budgeted expenditures of \$640,824 by \$272,074.

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 2021, net capital assets of the government activities totaled \$10.7 million and the net capital assets of the business-type activities totaled \$6.3 million. Depreciation on capital assets for both government activities and business-type activities is recognized in the government-wide financial statements.

Debt

At year-end, the City had \$9,838,724 recorded in the governmental activities of which \$9,641,851 is related to a net pension liability. The City had \$866,871 in the business-type activities of which \$820,580 is related to a net pension liability. The governmental activities debt is mainly comprised of net pension liability which management has little control over. During the current fiscal year, the City's total debt increased by \$228,147.

NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In considering the City's budget for fiscal year 2021/2022, the City Council and management were cautious as to the growth of revenues and expenditures. Overall operating expenditures were budgeted as an increase from the level of fiscal year 2020/2021. This increase was mainly from increased rates in the proprietary funds and paying down the Public Safety Retirement obligation.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact, City of Holbrook, Post Office Box 970, Holbrook, Arizona 86025.

FINANCIAL SECTION

City of Holbrook, Arizona
Statement of Net Position
June 30, 2021

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,156,587	\$ 148,937	\$ 2,305,524
Cash and cash equivalents, restricted	-	102,926	102,926
Taxes receivable	23,559	-	23,559
Due from other governments	646,585	-	646,585
Receivables, net	-	202,218	202,218
Inventory	16,940	45,940	62,880
Interactivity balances	1,253,107	(1,253,107)	-
Net pension and other postemployment benefits asset	139,926	3,201	143,127
Capital assets, not being depreciated	932,772	282,822	1,215,594
Capital assets, being depreciated, net	9,723,773	6,041,036	15,764,809
Total assets	14,893,249	5,573,973	20,467,222
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions and other postemployment benefits	2,173,425	156,226	2,329,651
LIABILITIES			
Accounts payable	53,880	32,023	85,903
Accrued expenses	101,286	13,900	115,186
Customer deposits	-	102,926	102,926
Noncurrent liabilities			
Due within 1 year	147,718	34,719	182,437
Due in more than 1 year	9,691,006	832,152	10,523,158
Total liabilities	9,993,890	1,015,720	11,009,610
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions and other postemployment benefits	82,050	15,813	97,863
NET POSITION			
Net investment in capital assets	10,656,545	6,323,858	16,980,403
Restricted for:			
Highways and streets	502,139	-	502,139
Court enhancement	56,430	-	56,430
Capital improvements	-	138,179	138,179
Unrestricted (deficit)	(4,224,380)	(1,763,371)	(5,987,751)
Total net position	\$ 6,990,734	\$ 4,698,666	\$ 11,689,400

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Activities
Year Ended June 30, 2021

Functions / Programs	Expenses	Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 1,126,959	\$ 23,850	\$ -	\$ -	\$ (1,103,109)	\$ -	\$ (1,103,109)
Public safety	2,684,307	41,096	11,209	16,000	(2,616,002)	-	(2,616,002)
Public works and streets	1,155,908	27,996	901,255	244,642	17,985	-	17,985
Parks and recreation	1,056,158	124,706	2,800	-	(928,652)	-	(928,652)
Welfare	83,857	-	-	-	(83,857)	-	(83,857)
Total governmental activities	6,107,189	217,648	915,264	260,642	(4,713,635)	-	(4,713,635)
Business-type activities							
Sanitation	521,333	557,052	-	-	-	35,719	35,719
Sewer	770,467	596,752	-	52,865	-	(120,850)	(120,850)
Water	1,105,525	938,767	-	52,693	-	(114,065)	(114,065)
Total business-type activities	2,397,325	2,092,571	-	105,558	-	(199,196)	(199,196)
Total primary government	\$ 8,504,514	\$ 2,310,219	\$ 915,264	\$ 366,200	(4,713,635)	(199,196)	(4,912,831)
General revenue:							
Taxes							
Sales taxes					3,775,959	-	3,775,959
Property taxes					185,707	-	185,707
Franchise taxes					112,080	-	112,080
State sales tax revenue sharing					603,131	-	603,131
Auto lieu tax revenue sharing					431,540	-	431,540
State revenue sharing					726,575	-	726,575
Interest income					6,432	-	6,432
Miscellaneous					88,047	-	88,047
Total general revenues					5,929,471	-	5,929,471
Change in net position					1,215,836	(199,196)	1,016,640
Net position, beginning of year					5,774,898	4,897,862	10,672,760
Net position, end of year					\$ 6,990,734	\$ 4,698,666	\$ 11,689,400

See accompanying notes to financial statements.

City of Holbrook, Arizona
Balance Sheet
Governmental Funds
June 30, 2021

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,686,610	\$ 433,834	\$ 36,143	\$ 2,156,587
Taxes receivable	23,559	-	-	23,559
Due from other governments	550,455	76,333	19,797	646,585
Inventory	16,940	-	-	16,940
Due from other funds	1,253,107	-	-	1,253,107
Total assets	<u>3,530,671</u>	<u>510,167</u>	<u>55,940</u>	<u>4,096,778</u>
LIABILITIES				
Accounts payable	34,904	1,149	17,827	53,880
Accrued expenses	94,407	6,879	-	101,286
Total liabilities	<u>129,311</u>	<u>8,028</u>	<u>17,827</u>	<u>155,166</u>
FUND BALANCES				
Unspendable	16,940	-	-	16,940
Restricted for:				
Highways and streets	-	502,139	-	502,139
Court enhancement	56,430	-	-	56,430
Unassigned	3,327,990	-	38,113	3,366,103
Total fund balances	<u>3,401,360</u>	<u>502,139</u>	<u>38,113</u>	<u>3,941,612</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,530,671</u>	<u>\$ 510,167</u>	<u>\$ 55,940</u>	<u>\$ 4,096,778</u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2021

Fund balances-total governmental funds	\$ 3,941,612
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	10,656,545
Net pension assets held in trust for future benefits are not available for City operations and, therefore, are not reported in the funds.	139,926
Long-term liabilities, such as net pension/OPEB liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	(9,838,724)
Deferred outflows and inflows of resources related to pensions/OPEB and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.	<u>2,091,375</u>
Net position of governmental activities	<u><u>\$ 6,990,734</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, 2021

	General Fund	HURF Fund	Grants Fund	Total Governmental Funds
Revenues				
Taxes	\$ 4,073,745	\$ -	\$ -	\$ 4,073,745
Intergovernmental	1,811,246	851,255	274,653	2,937,154
Charges for services	165,742	-	-	165,742
Fines and forfeitures	28,055	-	-	28,055
Other revenue	24,212	-	-	24,212
Licenses, permits and fees	23,850	-	-	23,850
Interest	6,432	-	-	6,432
Total revenues	<u>6,133,282</u>	<u>851,255</u>	<u>274,653</u>	<u>7,259,190</u>
Expenditures				
Current				
General government	791,490	-	-	791,490
Public safety	3,037,847	-	16,066	3,053,913
Public works and streets	297,835	496,876	11,185	805,896
Parks and recreation	951,890	-	9,923	961,813
Welfare	80,897	-	-	80,897
Capital outlay	101,085	336,878	331,576	769,539
Total expenditures	<u>5,261,044</u>	<u>833,754</u>	<u>368,750</u>	<u>6,463,548</u>
Excess (deficiency) of revenues over (under) expenditures	<u>872,238</u>	<u>17,501</u>	<u>(94,097)</u>	<u>795,642</u>
Other financing sources (uses)				
Sale of assets	<u>63,835</u>	<u>-</u>	<u>-</u>	<u>63,835</u>
Net change in fund balances	936,073	17,501	(94,097)	859,477
Fund balances, beginning of year	<u>2,465,287</u>	<u>484,638</u>	<u>132,210</u>	<u>3,082,135</u>
Fund balances, end of year	<u>\$ 3,401,360</u>	<u>\$ 502,139</u>	<u>\$ 38,113</u>	<u>\$ 3,941,612</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, 2021

Net change in fund balances-total governmental funds	\$	859,477
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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	769,539		
Depreciation expense	(736,354)		
			33,185

City pension/OPEB contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension/OPEB liability is measured a year before the City's report date. Pension/OPEB expense, which is the change in the net pension/OPEB liability adjusted for changes in deferred outflows and inflows of resources related to pensions/OPEB, is reported in the statement of activities.

City pension/OPEB contributions	1,415,879		
Pension/OPEB expense	(1,078,135)		
			337,744

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.

Decrease in manager contract liability	6,684		
Increase in compensated absences	(21,254)		
			(14,570)

Change in net position of governmental activities	\$	1,215,836
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See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Net Position
Proprietary Funds
June 30, 2021

	Business-type Activities--Enterprise Funds			
	Sanitation Fund	Sewer Fund	Water Fund	Total
ASSETS				
Current assets				
Cash and cash equivalents	\$ -	\$ 148,937	\$ -	\$ 148,937
Cash and cash equivalents, restricted	-	-	102,926	102,926
Accounts receivable, net	49,552	61,848	90,818	202,218
Inventory	-	22,970	22,970	45,940
Total current assets	<u>49,552</u>	<u>233,755</u>	<u>216,714</u>	<u>500,021</u>
Noncurrent assets				
Other postemployment benefits (OPEB) asset	747	960	1,494	3,201
Capital assets, net of accumulated depreciation, where applicable	152,493	4,434,355	1,737,010	6,323,858
Total noncurrent assets	<u>153,240</u>	<u>4,435,315</u>	<u>1,738,504</u>	<u>6,327,059</u>
Total assets	<u>202,792</u>	<u>4,669,070</u>	<u>1,955,218</u>	<u>6,827,080</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions and other postemployment benefits	36,453	46,868	72,905	156,226
LIABILITIES				
Current liabilities				
Accounts payable	8,340	3,928	19,755	32,023
Accrued expenses	3,721	4,252	5,927	13,900
Current portion of long-term debt	17,638	11,484	5,597	34,719
Customer deposits	-	-	102,926	102,926
Total current liabilities	<u>29,699</u>	<u>19,664</u>	<u>134,205</u>	<u>183,568</u>
Noncurrent liabilities				
Due to other funds	154,469	-	1,098,638	1,253,107
Compensated absences	5,879	3,828	1,865	11,572
Net pension liability and other postemployment benefits	191,469	246,174	382,937	820,580
Total noncurrent liabilities	<u>351,817</u>	<u>250,002</u>	<u>1,483,440</u>	<u>2,085,259</u>
Total liabilities	<u>381,516</u>	<u>269,666</u>	<u>1,617,645</u>	<u>2,268,827</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions and other postemployment benefits	3,690	4,744	7,379	15,813
NET POSITION				
Net investment in capital assets	152,493	4,434,355	1,737,010	6,323,858
Restricted for capital improvements	-	79,027	59,152	138,179
Unrestricted (deficit)	(298,454)	(71,854)	(1,393,063)	(1,763,371)
Total net position	<u>\$ (145,961)</u>	<u>\$ 4,441,528</u>	<u>\$ 403,099</u>	<u>\$ 4,698,666</u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Years Ended June 30, 2021

	Business-type Activities--Enterprise Funds			
	Sanitation Fund	Sewer Fund	Water Fund	Total
Operating revenues				
Charges for services	\$ 551,272	\$ 593,454	\$ 895,363	\$ 2,040,089
Miscellaneous	5,780	3,298	43,404	52,482
Total operating revenues	<u>557,052</u>	<u>596,752</u>	<u>938,767</u>	<u>2,092,571</u>
Operating expenses				
Personnel	185,571	115,650	366,992	668,213
Service, supplies and other	335,422	287,528	510,312	1,133,262
Depreciation	340	367,289	228,221	595,850
Total operating expenses	<u>521,333</u>	<u>770,467</u>	<u>1,105,525</u>	<u>2,397,325</u>
Income (loss) before contributions, gains, losses, and transfers	35,719	(173,715)	(166,758)	(304,754)
Capital contributions	-	52,865	52,693	105,558
Transfers	-	(19,371)	19,371	-
Increase (decrease) in net position	35,719	(140,221)	(94,694)	(199,196)
Total net position, beginning of year	(181,680)	4,581,749	497,793	4,897,862
Total net position, end of year	<u>\$ (145,961)</u>	<u>\$ 4,441,528</u>	<u>\$ 403,099</u>	<u>\$ 4,698,666</u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2021

	Business-type Activities--Enterprise Funds			
	Sanitation Fund	Sewer Fund	Water Fund	Total
Cash flows from operating activities:				
Receipts from customers	\$ 562,364	\$ 593,647	\$ 936,467	\$ 2,092,478
Payments to suppliers and providers of goods and services	(362,443)	(303,805)	(528,722)	(1,194,970)
Payments to employees	(208,650)	(233,061)	(330,464)	(772,175)
Net cash provided by (used for) operating activities	(8,729)	56,781	77,281	125,333
Cash flows from noncapital financing activities:				
Advances (Repayments) to/from other funds	8,729	-	(111,252)	(102,523)
Net transfers (to) from other funds	-	(19,371)	19,371	-
Net cash provided by (used for) noncapital financing activities	8,729	(19,371)	(91,881)	(102,523)
Cash flows from capital and related financing activities:				
Proceeds from capital contributions	-	52,865	52,693	105,558
Purchase of capital assets	-	(35,837)	(32,462)	(68,299)
Net cash provided by (used for) capital and related financing activities	-	17,028	20,231	37,259
Net increase (decrease) in cash and cash equivalents	-	54,438	5,631	60,069
Cash and cash equivalents, beginning of year	-	94,499	97,295	191,794
Cash and cash equivalents, end of year	\$ -	\$ 148,937	\$ 102,926	\$ 251,863
 Cash and cash equivalents	 \$ -	 \$ 148,937	 \$ -	 \$ 148,937
Cash and cash equivalents, restricted	-	-	102,926	102,926
Cash and cash equivalents, end of year	\$ -	\$ 148,937	\$ 102,926	\$ 251,863

See accompanying notes to financial statements.

City of Holbrook, Arizona
Statement of Cash Flows
Proprietary Funds
Years Ended June 30, 2021
(Continued)

	Business-type Activities--Enterprise Funds			
	Sanitation Fund	Sewer Fund	Water Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 35,719	\$ (173,715)	\$ (166,758)	\$ (304,754)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	340	367,289	228,221	595,850
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Accounts receivable	5,312	(3,105)	(7,931)	(5,724)
Net pension and other postemployment benefits asset	(408)	(366)	(985)	(1,759)
Deferred outflows of resources related to pensions and other postemployment benefits	(12,468)	(4,894)	(36,928)	(54,290)
Accounts payable	(27,021)	(16,277)	(18,410)	(61,708)
Accrued expenses	(264)	(2,415)	38	(2,641)
Customer deposits	-	-	5,631	5,631
Compensated absences payable	(1,330)	(4,060)	(10,261)	(15,651)
Net pension and other postemployment benefits liability	4,054	(81,802)	101,814	24,066
Deferred inflows of resources related to pensions and other postemployment benefits	(12,663)	(23,874)	(17,150)	(53,687)
Net cash provided (used) by operating activities	<u><u>\$ (8,729)</u></u>	<u><u>\$ 56,781</u></u>	<u><u>\$ 77,281</u></u>	<u><u>\$ 125,333</u></u>

See accompanying notes to financial statements.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's accounting policies of the City of Holbrook, Arizona, conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

A. Reporting Entity

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

B. Basis of Presentation

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

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

A statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function 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, 2021

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, 2021 the City has elected to report all of their funds as major funds.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund’s principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be nonoperating expenses.

The City reports the following major governmental funds:

The ***General Fund*** is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***HURF Fund*** accounts for specific revenue received from the State of Arizona Highway User Revenue Fund (HURF) which is legally restricted to expenditures for specified purposes, namely road construction and maintenance.

The ***Grants Fund*** accounts for federal and state grant programs.

The City reports the following major enterprise funds:

The ***Sanitation, Sewer, and Water 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 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.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Basis of Accounting

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. The City applies grant resources to such programs before using general revenues.

D. Cash and Investments

For the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in the State Treasurer's local government investment pool, and only those highly liquid investments with a maturity of three months or less when purchased.

E. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the City. The amount recorded as an allowance for uncollectible receivables at June 30, 2021, for the Sanitation, Sewer, and Water Funds was \$24,000, \$17,800, and \$140,200, respectively.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

F. Property Tax Calendar

Property taxes are billed and collected through Navajo County. The City levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

During the year, the City also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property assessed attaches on the first day of January preceding assessment and levy.

G. Inventories

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

H. Capital Assets

Capital assets are reported at actual cost (or estimated historical cost if historical records are not available). Donated assets are reported at acquisition value.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ 5,000	n/a	n/a
Infrastructure	5,000	Straight-line	25-50
Buildings	5,000	Straight-line	25-50
Utility systems	5,000	Straight-line	25-50
Land Improvements	5,000	Straight-line	15-20
Equipment	5,000	Straight-line	5-15
Vehicles	5,000	Straight-line	5-10
Furniture and fixtures	5,000	Straight-line	5-15

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

J. Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

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

Employees can carry forward an unlimited amount of sick leave hours. Except for those employees who were hired prior to August 13, 2009, all sick leave hours accrued are forfeited upon termination. All those hired prior to August 13, 2009 are considered grandfathered and are paid for one third of the accumulated balance upon retirement. Accordingly, this portion of the sick leave benefits is accrued as a liability in the financial statements.

K. Deferred Outflows/Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

L. Fund Balance Reporting

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact.

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the City Council has approved, which is the highest level of decision-making authority within the City. Only the City Council can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but that are neither restricted nor committed. The City Council has authorized the City manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the City's policy to use (the City will use) restricted fund balance first. It is the City's policy to use (the City will use) committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

M. Postemployment Benefits

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

N. Budgets

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

Expenditures may not legally exceed budgeted appropriations at the department level. The individual budgetary comparison schedules as listed in the table of contents present all major governmental funds which incurred an excess of expenditures/expenses over appropriations for the year ended June 30, 2021, if any.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

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; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the City Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investor's service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

Statutes do not include any requirements for concentration of credit risk.

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

The City's investment policy states that the City will conform with Arizona Revised Statutes.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

Restricted cash – Restricted cash in the Water Fund consists of \$102,926 reserved for refundable customer deposits.

Deposits – At June 30, 2021, the carrying amount of the City’s total nonpooled cash in bank was \$705,207 and the bank balance was \$763,991. The entire bank balance was covered by federal depository insurance or pledged collateral held by the City’s agent not in the City’s name.

Investments – At June 30, 2021, the investments consisted of the City’s investment in the State Treasurer’s investment pool. The reported amount of \$1,702,843 approximates fair value. The investment rating of the State treasurer’s investment pool is “unrated”.

Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the City held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

Cash, deposits, and investments:	
Cash on hand	\$ 400
Amount of deposits	705,207
Amount of investments	<u>1,702,843</u>
Total cash, deposits, and investments	2,408,450
Cash and cash equivalents, restricted	<u>(102,926)</u>
Total cash and cash equivalents	<u><u>\$ 2,305,524</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due at June 30, 2021 from other governments in the Governmental Funds consisted of the following:

Description	General Fund	HURF Fund	Grants Fund	Total
<u>State of Arizona:</u>				
City sales tax	\$ 501,050	\$ -	\$ -	\$ 501,050
Grants	-	-	19,797	19,797
Highway user revenue	-	76,333	-	76,333
State sales tax	29,703	-	-	29,703
Vehicle license tax	19,663	-	-	19,663
<u>Navajo County - Property tax</u>	<u>39</u>	<u>-</u>	<u>-</u>	<u>39</u>
	<u>\$ 550,455</u>	<u>\$ 76,333</u>	<u>\$ 19,797</u>	<u>\$ 646,585</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

Governmental activities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 914,945	\$ -	\$ -	\$ 914,945
Construction in progress	-	17,827	-	17,827
Total capital assets not being depreciated	<u>914,945</u>	<u>17,827</u>	<u>-</u>	<u>932,772</u>
Capital assets being depreciated:				
Buildings	6,447,360	9,851	-	6,457,211
Furniture, equipment and vehicles	3,783,241	537,571	(316,466)	4,004,346
Infrastructure - roads	5,387,078	-	-	5,387,078
Runway and taxiway	4,338,872	204,290	-	4,543,162
Improvements - other	116,366	-	-	116,366
Total	<u>20,072,917</u>	<u>751,712</u>	<u>(316,466)</u>	<u>20,508,163</u>
Less accumulated depreciation for:				
Buildings	(3,827,479)	(147,686)	-	(3,975,165)
Furniture, equipment and vehicles	(3,328,767)	(150,567)	316,466	(3,162,868)
Infrastructure - roads	(2,257,922)	(215,571)	-	(2,473,493)
Runway and taxiway	(896,673)	(218,299)	-	(1,114,972)
Improvements - other	(53,661)	(4,231)	-	(57,892)
Total	<u>(10,364,502)</u>	<u>(736,354)</u>	<u>316,466</u>	<u>(10,784,390)</u>
Total capital assets being depreciated, net	<u>9,708,415</u>	<u>15,358</u>	<u>-</u>	<u>9,723,773</u>
Governmental activities capital assets, net	<u>\$ 10,623,360</u>	<u>\$ 33,185</u>	<u>\$ -</u>	<u>\$ 10,656,545</u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 4 – CAPITAL ASSETS – Continued

Business-type activities

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets not being depreciated:				
Land and water rights	\$ 282,822	\$ -	\$ -	\$ 282,822
Capital assets being depreciated:				
Utility systems	31,139,177	-	-	31,139,177
Furniture, equipment and vehicles	1,326,788	68,299	-	1,395,087
Total	<u>32,465,965</u>	<u>68,299</u>	<u>-</u>	<u>32,534,264</u>
Less accumulated depreciation for:				
Utility systems	(24,700,073)	(548,683)	-	(25,248,756)
Furniture, equipment and vehicles	(1,197,305)	(47,167)	-	(1,244,472)
Total	<u>(25,897,378)</u>	<u>(595,850)</u>	<u>-</u>	<u>(26,493,228)</u>
Total capital assets being depreciated, net	<u>6,568,587</u>	<u>(527,551)</u>	<u>-</u>	<u>6,041,036</u>
Business-type activities capital assets, net	<u><u>\$ 6,851,409</u></u>	<u><u>\$ (527,551)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,323,858</u></u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 307,287
Public safety	52,802
Public works and streets	314,792
Parks and recreation	<u>61,473</u>
 Total governmental activities depreciation expense	 <u><u>\$ 736,354</u></u>
 Business-type activities:	
Sanitation	\$ 340
Sewer	367,289
Water	<u>228,221</u>
 Total business-type activities depreciation expense	 <u><u>\$ 595,850</u></u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability activity for the year ended June 30, 2021.

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due within 1 year
Governmental activities:					
Compensated absences	\$ 166,903	\$ 21,254	\$ -	\$ 188,157	\$ 141,118
Manager contract liability	15,400	-	(6,684)	8,716	6,600
Net pension and other					
postemployment benefits liability	9,436,689	205,162	-	9,641,851	-
Governmental activities					
long-term liabilities	<u>\$ 9,618,992</u>	<u>\$ 226,416</u>	<u>\$ (6,684)</u>	<u>\$ 9,838,724</u>	<u>\$ 147,718</u>
Business-type activities:					
Compensated absences	\$ 61,942	\$ -	\$ (15,651)	\$ 46,291	\$ 34,719
Net pension and other					
postemployment benefits liability	796,514	24,066	-	820,580	-
Business-type activities					
long-term liabilities	<u>\$ 858,456</u>	<u>\$ 24,066</u>	<u>\$ (15,651)</u>	<u>\$ 866,871</u>	<u>\$ 34,719</u>

Manager contract liability – During the year ending June 30, 2013, the City entered into a contract with the City Manager. As part of the contract, for each month from November 18, 2012 that the Manager remains employed as City Manager, the City shall allow the Manager to maintain the City’s health benefits for that same number of months after the Manager ceases to be the City Manager. The City Manager worked for the City for 60 months following November 2012 and had accrued a benefit of approximately \$33,000 upon him leaving. As of June 30, 2021, the City had paid out 44 months of health insurance with 16 months remaining at an approximate value of \$8,716.

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, 2021

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund balances – During the course of normal operations, the City’s General Fund has loaned the Sanitation and Water Funds resources to fund ongoing operations. Balances are not expected to be repaid within one year.

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Arizona State Retirement System (ASRS) and the Public Safety Personnel Retirement System (PSPRS). The plans are component units of the State of Arizona.

At June 30, 2021, the City reported the following aggregate amounts related to pensions and other postemployment benefits (OPEB) for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net OPEB assets	\$ 139,926	\$ 3,201	\$ 143,127
Net pension and OPEB liabilities	9,641,851	820,580	10,462,431
Deferred outflows of resources related to pension and OPEB	2,173,425	156,226	2,329,651
Deferred inflows of resources related to pension and OPEB	82,050	15,813	97,863
Pension and OPEB expense	1,078,135	66,020	1,144,155

The City reported \$1,415,879 of pension and OPEB contributions as expenditures in the governmental funds related to all plans to which it contributes.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

A. Arizona State Retirement System

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

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

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

*With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

Contributions – In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2021, statute required active ASRS members to contribute at the actuarially determined rate of 12.22 percent (12.04 percent for retirement and 0.18 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 12.22 percent (11.65 percent for retirement, 0.39 percent for health insurance premium benefit, and 0.18 percent for long-term disability) of the active members' annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 10.21 percent (10.14 percent for retirement and 0.07 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS would typically fill. The City's contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2021, were \$183,420, \$6,140, and \$2,834, respectively.

During fiscal year 2021, the City paid for ASRS pension and OPEB contributions as follows: 57.00 percent from the General Fund, 13.00 percent from the HURF Fund, 7.00 percent from the Sanitation Fund, 9.00 percent from the Sewer Fund, and 14.00 percent from the Water Fund.

Liability - At June 30, 2021, the City reported the following asset and liabilities for its proportionate share of the ASRS' net pension/OPEB asset or liability.

	Net Pension/OPEB
	(Asset) Liability
Pension	\$ 2,723,729
Health insurance premium benefit	(10,670)
Long-term disability	11,538

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net asset and net liabilities were measured as of June 30, 2020. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2019, to the measurement date of June 30, 2020. The City's proportion of the net asset or net liability was based on the City's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2020. The City's proportions measured as of June 30, 2020, and the change from its proportions measured as of June 30, 2019, were:

	Proportion June 30, 2020	Increase (decrease) from June 30, 2019
Pension	0.01572%	-0.00031%
Health insurance premium benefit	0.01507%	-0.00028%
Long-term disability	0.01521%	-0.00035%

Expense – For the year ended June 30, 2021, the City recognized the following pension and OPEB expense.

	Pension/OPEB Expense
Pension	213,093
Health insurance premium benefit	3,369
Long-term disability	3,605

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Deferred Outflows/Inflows of Resources—At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension		Health Insurance Premium Benefit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,641	\$ -	\$ -	\$ 21,024
Changes of assumptions or other inputs	-	-	5,915	-
Net difference between projected and actual earnings on plan investments	262,707	-	10,917	-
Changes in proportion and differences between City contributions and proportionate share of contributions	20,644	31,106	19	20
City contributions subsequent to the measurement date	183,420	-	6,140	-
Total	\$ 491,412	\$ 31,106	\$ 22,991	\$ 21,044
	Long-Term Disability			
	Deferred Outflows of Resources	Deferred Inflows of Resources		
Differences between expected and actual experience	\$ 1,004	\$ 297		
Changes of assumptions or other inputs	1,243	-		
Net difference between projected and actual earnings on plan investments	1,270	-		
Changes in proportion and differences between City contributions and proportionate share of contributions	-	263		
City contributions subsequent to the measurement date	2,834	-		
Total	\$ 6,351	\$ 560		

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year ended June 30,	Pension	Health Insurance Premium Benefit	Long-Term Disability
2022	\$ 34,785	\$ (2,272)	484
2023	65,823	39	690
2024	95,024	549	728
2025	81,254	(579)	649
2026	-	(1,930)	322
Thereafter	-	-	84

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

ASRS

Actuarial valuation date	June 30, 2019
Actuarial roll forward date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7 - 7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on ASRS plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
Equity	50%	6.39%
Fixed income - credit	20%	5.44%
Fixed income - interest rate sensitive	10%	0.22%
Real Estate	20%	5.85%
Total	100%	

Discount Rate – The discount rate used to measure the ASRS total pension/OPEB liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the City’s Proportionate Share of the ASRS Net Pension/OPEB (Asset) Liability to Changes in the Discount Rate – The following table presents the City’s proportionate share of the net pension/OPEB liability calculated using the discount rate of 7.5 percent, as well as what the City’s proportionate share of the net pension/OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's Proportionate share of the			
Net pension liability	\$ 3,724,662	\$ 2,723,729	\$ 1,887,000
Net insurance premium benefit liability (asset)	14,000	(10,670)	(31,664)
Net long-term disability liability	12,598	11,538	10,510

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

B. Public Safety Personnel Retirement System

Plan Descriptions – City police employees participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A nine-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool) which are not further disclosed because of their relative insignificance to the City’s financial statements.

The PSPRS issues publicly available financial report that includes financial statements and required supplementary information. The report is available on the PSPRS website at www.psprs.com.

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 36 consecutive months of last 20 years
Benefit percentage		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. Benefits range from \$100 per month to \$260 per month depending on the age of the member and dependents.

Employees Covered by Benefit Terms – At June 30, 2021, the following employees were covered by the agent plans' benefit terms:

	PSPRS Police	
	Pension	Health
Inactive employees or beneficiaries currently receiving benefits	18	18
Inactive employees entitled to but not yet receiving benefits	3	-
Active employees	4	4
Total	25	22

Contributions – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2021, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active Member- Pension	City-Pension	City-Health Insurance Premium Benefit
PSPRS Police	7.65% - 11.65%	116.56%	0.00%

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The City's contributions to the plans for the year ended June 30, 2021, were:

	<u>Pension</u>	<u>Health Insurance Premium Benefit</u>
PSPRS Police	\$ 1,397,798	\$ -

During fiscal year 2021, the City paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Liability – At June 30, 2021, the City reported the following assets and liabilities:

	<u>Net Pension (Asset) Liability</u>	<u>Net OPEB (Asset) Liability</u>
PSPRS Police	\$ 7,727,164	\$ (132,457)

The net assets and net liabilities were measured as of June 30, 2020, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date.

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

PSPRS

Actuarial valuation date	June 30, 2020
Actuarial cost method	Entry age normal
Investment rate of return	7.30%
Wage inflation	3.5% for pensions/not applicable for OPEB
Price inflation	2.5% for pensions/not applicable for OPEB
Cost-of-living adjustment	1.75% for pensions/not applicable for OPEB
Mortality rates	PubS-2010 tables
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2017.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on PSPRS plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return
U.S. public equity	23%	4.93%
International public equity	15%	6.09%
Global private equity	18%	8.42%
Other assets (capital appreciation)	7%	5.61%
Core bonds	2%	0.22%
Private credit	22%	5.31%
Diversifying strategies	12%	3.22%
Cash - Mellon	1%	-0.60%
Total	100%	

Discount Rates – At June 30, 2020, the discount rate used to measure the PSPRS total pension/OPEB liabilities was 7.3 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Changes in the Net Pension/OPEB Liability (Asset)

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liab (Asset) (a)-(b)
Balances at June 30, 2020	\$ 10,261,511	\$ 2,370,996	\$ 7,890,515
Adjustment to beginning of year	-	(10,247)	10,247
Changes for the year			
Service Cost	86,340	-	86,340
Interest on the total liability	727,508	-	727,508
Differences between expected and actual experience in the measurement of the liability	(13,680)	-	(13,680)
Contributions-employer	-	890,892	(890,892)
Contributions-employee	-	53,963	(53,963)
Net investment income	-	31,478	(31,478)
Benefit payments, including refunds of employee contributions	(763,966)	(763,966)	-
Administrative expense	-	(2,567)	2,567
Net changes	36,202	199,553	(163,351)
Balances at June 30, 2021	\$ 10,297,713	\$ 2,570,549	\$ 7,727,164

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	Health Insurance Premium Benefit		
	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB (Asset) Liability (a) - (b)
Balances at June 30, 2020	\$ 125,143	\$ 228,251	\$ (103,108)
Changes for the year			
Service Cost	2,211	-	2,211
Interest on the total liability	9,136	-	9,136
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the liability	(38,083)	-	(38,083)
Changes of assumptions or other inputs	-	-	-
Contributions-employer	-	-	-
Contributions-employee	-	-	-
Net investment income	-	2,844	(2,844)
Benefit payments, including refunds of employee contributions	(7,800)	(7,800)	-
Administrative expense	-	(231)	231
Other changes	-	-	-
Net changes	(34,536)	(5,187)	(29,349)
Balances at June 30, 2021	\$ 90,607	\$ 223,064	\$ (132,457)

Sensitivity of the City's Net Pension/OPEB Liability to Changes in the Discount Rate – The following table presents the City's net pension/OPEB (assets) liabilities calculated using the discount rate of 7.3 percent, as well as what the City's net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% Decrease (6.3%)	Current Discount Rate (7.3%)	1% Increase (8.3%)
PSPRS Police			
Net pension (asset) liability	\$ 9,004,140	\$ 7,727,164	\$ 6,682,838
Net OPEB (asset) liability	(123,050)	(132,457)	(140,445)

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

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2021

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Expense – For the year ended June 30, 2021, the City recognized the following pension and OPEB expense:

	<u>Pension Expense</u>	<u>OPEB Expense (Income)</u>
PSPRS Police	\$ 961,225	\$ (37,137)

Deferred Outflows/Inflows of Resources – At June 30, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	<u>Pension</u>		<u>Health Insurance Premium Benefit</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 114,739	\$ 10,772	\$ 7,251	\$ 33,534
Changes of assumptions or other inputs	145,562	-	488	847
Net difference between projected and actual earnings on plan investments	131,007	-	12,052	-
City contributions subsequent to the measurement date	<u>1,397,798</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,789,106</u>	<u>\$ 10,772</u>	<u>\$ 19,791</u>	<u>\$ 34,381</u>

City of Holbrook, Arizona
Notes to Financial Statements
June 30, 2020

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

	PSPRS Police	
	Pension	Health
Year ended June 30,		
2022	\$ 272,352	\$ (26,945)
2023	40,146	6,073
2024	38,565	3,577
2025	29,473	2,705
2026	-	-
Thereafter	-	-

REQUIRED SUPPLEMENTARY INFORMATION

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 3,332,702	\$ 3,332,702	\$ 4,073,745	\$ 741,043
Intergovernmental	1,623,636	1,623,636	1,811,246	187,610
Charges for services	168,000	168,000	165,742	(2,258)
Fines and forfeitures	124,111	124,111	28,055	(96,056)
Other revenue	27,686	27,686	24,212	(3,474)
Licenses, permits and fees	12,000	12,000	23,850	11,850
Interest	22,000	22,000	6,432	(15,568)
Total revenues	5,310,135	5,310,135	6,133,282	823,147
Expenditures				
City Council	53,899	53,899	22,272	31,627
Administration	648,604	648,604	677,755	(29,151)
Community Development	97,687	97,687	91,425	6,262
Lodgers	134,992	134,992	115,577	19,415
Library	273,819	273,819	252,454	21,365
Parks	404,864	404,864	383,631	21,233
Golf Course	330,163	330,163	301,351	28,812
Animal Control	106,983	106,983	92,402	14,581
Police	2,197,313	2,197,313	2,745,276	(547,963)
Fire	160,764	160,764	124,233	36,531
Facilities	97,402	97,402	101,188	(3,786)
Fleet	153,131	153,131	150,019	3,112
Airport	79,004	79,004	46,628	32,376
Magistrate	73,540	73,540	73,695	(155)
Senior Center	82,820	82,820	80,897	1,923
Contingency	359,147	359,147	-	359,147
Impound	29,980	29,980	2,241	27,739
JCEF	39,640	39,640	-	39,640
Fill the GAP	19,791	19,791	-	19,791
Total expenditures	5,343,543	5,343,543	5,261,044	82,499
Excess (deficiency) of revenues over (under) expenditures	(33,408)	(33,408)	872,238	905,646
Other financing sources (uses)				
Sale of assets	20,000	20,000	63,835	43,835
Net change in fund balances	(13,408)	(13,408)	936,073	949,481
Fund balances, beginning of year	2,465,287	2,465,287	2,465,287	-
Fund balances, end of year	\$ 2,451,879	\$ 2,451,879	\$ 3,401,360	\$ 949,481

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 784,963	\$ 784,963	\$ 851,255	\$ 66,292
Expenditures				
Public works and streets	886,626	886,626	833,754	52,872
Net change in fund balances	(101,663)	(101,663)	17,501	119,164
Fund balances, beginning of year	484,638	484,638	484,638	-
Fund balances, end of year	<u>\$ 382,975</u>	<u>\$ 382,975</u>	<u>\$ 502,139</u>	<u>\$ 119,164</u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Intergovernmental	\$ 624,300	\$ 624,300	\$ 274,653	\$ (349,647)
Expenditures				
Grants	640,824	640,824	368,750	272,074
Net change in fund balances	(16,524)	(16,524)	(94,097)	(77,573)
Fund balances, beginning of year	132,210	132,210	132,210	-
Fund balances, end of year	<u>\$ 115,686</u>	<u>\$ 115,686</u>	<u>\$ 38,113</u>	<u>\$ (77,573)</u>

See accompanying notes to budgetary comparison schedule.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2021

NOTE 1 – BUDGETING AND BUDGETARY CONTROL

A.R.S. requires the City to prepare and adopt a balanced budget annually for each governmental fund. The City Council must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibits expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the City Council's approval. With the exception of the general fund, each fund includes only one department.

NOTE 2 – BUDGETARY BASIS OF ACCOUNTING

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

NOTE 3 – EXPENDITURES IN EXCESS OF APPROPRIATIONS

For the year ended June 30, 2021, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Administration, Police, Facilities, and Magistrate departments.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of the City's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Plans
June 30, 2021

ASRS-Pension

	Reporting Fiscal Year (Measurement Date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2012
City's proportion of the net pension liability	0.015720%	0.016030%	0.015580%	0.015980%	0.018600%	0.018330%	0.018808%	Information
City's proportionate share of the net pension liability	\$ 2,723,729	\$ 2,332,552	\$ 2,172,862	\$ 2,489,373	\$ 3,002,227	\$ 2,854,998	\$ 2,782,938	not available
City's covered payroll	\$ 1,595,363	\$ 1,659,203	\$ 1,548,330	\$ 1,558,312	\$ 1,693,548	\$ 1,688,200	\$ 1,695,402	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	170.73%	140.58%	140.34%	159.75%	177.27%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	69.33%	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year (Measurement Date)					
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2012	
City's proportion of the net OPEB (asset)	0.015070%	0.015350%	0.015600%	0.016000%	Information	
City's proportionate share of the net OPEB (asset)	\$ (10,670)	\$ (4,242)	\$ (5,617)	\$ (8,710)	not available	
City's covered payroll	\$ 1,595,363	\$ 1,659,203	\$ 1,548,330	\$ 1,558,312		
City's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	-0.67%	-0.26%	-0.36%	-0.56%		
Plan fiduciary net position as a percentage of the total OPEB liability	104.33%	101.62%	102.20%	103.57%		

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of the City's Proportionate
Share of the Net Pension/OPEB Liability
Cost-Sharing Plans
June 30, 2021

ASRS-Long-Term Disability

	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2012
City's proportion of the net OPEB (asset)	0.015210%	0.015560%	0.015600%	0.015930%	Information not available
City's proportionate share of the net OPEB (asset)	\$ 11,538	\$ 10,136	\$ 8,151	\$ 5,774	
City's covered payroll	\$ 1,595,363	\$ 1,659,203	\$ 1,548,330	\$ 1,558,312	
City's proportionate share of the net OPEB (asset) as a percentage of its covered-employee payroll	0.72%	0.61%	0.53%	0.37%	
Plan fiduciary net position as a percentage of the total OPEB liability	68.01%	72.85%	77.83%	84.44%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Changes in the City's
Net Pension/OPEB Liability and Related Ratios
Agent Pension Plans
June 30, 2021

PSPRS-Pension

	Reporting Fiscal Year (Measurement Date)							
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2012
Total pension liability								Information not available
Service cost	\$ 86,340	\$ 61,199	\$ 63,838	\$ 123,374	\$ 123,831	\$ 108,893	\$ 128,316	
Interest on the total pension liability	727,508	683,571	662,886	629,152	627,072	591,008	458,327	
Changes of benefit terms	-	-	-	104,775	(33,893)	-	219,150	
Differences between expected and actual experience in the measurement of the pension liability	(13,680)	335,292	107,072	(27,208)	(159,324)	251,187	302,968	
Changes of assumptions or other inputs	-	312,730	-	285,779	324,762	-	1,073,926	
Benefit payments, including refunds of employee contributions	(763,966)	(615,063)	(552,031)	(481,711)	(481,711)	(516,581)	(448,947)	
Net change in total pension liability	36,202	777,729	281,765	634,161	400,737	434,507	1,733,740	
Total pension liability - beginning	10,261,511	9,483,782	9,202,017	8,567,856	8,167,119	7,732,612	5,998,872	
Total pension liability - ending (a)	<u>\$ 10,297,713</u>	<u>\$ 10,261,511</u>	<u>\$ 9,483,782</u>	<u>\$ 9,202,017</u>	<u>\$ 8,567,856</u>	<u>\$ 8,167,119</u>	<u>\$ 7,732,612</u>	
Plan fiduciary net position								
Contributions - employer	\$ 890,892	\$ 519,733	\$ 503,731	\$ 456,574	\$ 495,281	\$ 307,328	\$ 281,536	
Contributions - employee	53,963	22,989	59,150	79,281	83,917	74,656	68,611	
Net investment income	31,478	122,764	155,482	236,484	11,026	64,270	230,716	
Benefit payments, including refunds of employee contributions	(763,966)	(615,063)	(552,031)	(481,711)	(481,711)	(516,581)	(448,947)	
Hall/Parker Settlement	-	-	(86,985)	-	-	-	-	
Administrative expense	(2,567)	(3,122)	(3,066)	(2,492)	(1,988)	(1,927)	-	
Other changes	-	12,693	(25,794)	23	137,607	(36,229)	(144,423)	
Net change in plan fiduciary net position	209,800	59,994	50,487	288,159	244,132	(108,483)	(12,507)	
Plan fiduciary net position - beginning	2,370,996	2,311,029	2,260,542	1,972,383	1,728,251	1,836,734	1,849,241	
Administrative expense	(10,247)	(27)	-	-	-	-	-	
Plan fiduciary net position - ending (b)	<u>\$ 2,570,549</u>	<u>\$ 2,370,996</u>	<u>\$ 2,311,029</u>	<u>\$ 2,260,542</u>	<u>\$ 1,972,383</u>	<u>\$ 1,728,251</u>	<u>\$ 1,836,734</u>	
City's net pension liability (asset) - ending (a) - (b)	<u>\$ 7,727,164</u>	<u>\$ 7,890,515</u>	<u>\$ 7,172,753</u>	<u>\$ 6,941,475</u>	<u>\$ 6,595,473</u>	<u>\$ 6,438,868</u>	<u>\$ 5,895,878</u>	
Plan fiduciary net position as a percentage of the total pension liability	24.96%	23.11%	24.37%	24.57%	23.02%	21.16%	23.75%	
Covered payroll	\$ 268,648	\$ 414,875	\$ 332,835	\$ 565,676	\$ 671,533	\$ 697,600	\$ 612,404	
City's net pension (asset) liability as a percentage of covered payroll	2876.32%	1901.90%	2155.05%	1227.11%	982.15%	923.00%	962.74%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of Changes in the City's
Net Pension/OPEB Liability and Related Ratios
Agent Pension Plans
June 30, 2021

PSPRS-OPEB

	Reporting Fiscal Year (Measurement Date)				
	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 through 2012
Total OPEB liability					
Service cost	\$ 2,211	\$ 999	\$ 1,198	\$ 2,715	Information
Interest on the total OPEB liability	9,136	8,300	13,358	12,245	not available
Changes of benefit terms	-	-	-	-	
Differences between expected and actual experience in the measurement of the OPEB liability	(38,083)	8,100	(74,177)	15,691	
Changes of assumptions or other inputs	-	974	-	(4,167)	
Benefit payments	(7,800)	(8,808)	(9,454)	(7,487)	
Net change in total OPEB liability	(34,536)	9,565	(69,075)	18,997	
Total OPEB liability - beginning	125,133	115,568	184,643	165,646	
Total OPEB liability - ending (a)	<u>\$ 90,597</u>	<u>\$ 125,133</u>	<u>\$ 115,568</u>	<u>\$ 184,643</u>	
Plan fiduciary net position					
Contributions - employer	\$ -	\$ -	\$ (27)	\$ -	
Net investment income	2,844	11,974	15,064	23,626	
Benefit payments	(7,800)	(8,808)	(9,454)	(7,487)	
Administrative expense	(231)	(180)	(229)	(209)	
Net change in plan fiduciary net position	(5,187)	2,986	5,354	15,930	
Plan fiduciary net position - beginning	228,251	225,265	219,911	203,981	
Plan fiduciary net position - ending (b)	<u>\$ 223,064</u>	<u>\$ 228,251</u>	<u>\$ 225,265</u>	<u>\$ 219,911</u>	
City's net OPEB (asset) liability - ending (a) - (b)	<u>\$ (132,467)</u>	<u>\$ (103,118)</u>	<u>\$ (109,697)</u>	<u>\$ (35,268)</u>	
Plan fiduciary net position as a percentage of the total OPEB liability	246.22%	182.41%	194.92%	119.10%	
Covered payroll	\$ 268,648	\$ 414,875	\$ 332,835	\$ 565,676	
City's net OPEB (asset) liability as a percentage of covered payroll	-49.31%	-24.86%	-32.96%	-6.23%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of City Pension/OPEB Contributions
June 30, 2021

ASRS-Pension

	Reporting Fiscal Year								
	2021	2020	2019	2018	2017	2016	2015	2014	2013 through 2012
Statutorily required contribution	\$ 183,420	\$ 196,675	\$ 189,038	\$ 168,768	\$ 167,986	\$ 183,750	\$ 183,845	\$ 181,408	Information not available
City's contributions in relation to the statutorily required contribution	<u>(183,420)</u>	<u>(196,675)</u>	<u>(189,038)</u>	<u>(168,768)</u>	<u>(167,986)</u>	<u>(183,750)</u>	<u>(183,845)</u>	<u>(181,408)</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 1,574,322	\$ 1,595,363	\$ 1,659,203	\$ 1,548,330	\$ 1,558,312	\$ 1,693,548	\$ 1,688,200	\$ 1,695,402	
City's contributions as a percentage of covered payroll	11.65%	12.33%	11.18%	10.90%	10.78%	10.85%	10.89%	10.70%	

ASRS-Health Insurance Premium Benefit

	Reporting Fiscal Year					
	2021	2020	2019	2018	2017	2016 through 2012
Statutorily required contribution	\$ 6,140	\$ 7,880	\$ 7,267	\$ 6,694	\$ 8,616	Information not available
City's contributions in relation to the statutorily required contribution	<u>(6,140)</u>	<u>(7,880)</u>	<u>(7,267)</u>	<u>(6,694)</u>	<u>(8,616)</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	\$ 1,574,322	\$ 1,595,363	\$ 1,659,203	\$ 1,548,330	\$ 1,558,312	
City's contributions as a percentage of covered payroll	0.39%	0.49%	0.46%	0.43%	0.55%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of City Pension/OPEB Contributions
June 30, 2021

ASRS-Long-Term Disability

	Reporting Fiscal Year					
	2021	2020	2019	2018	2017	2016 through 2012
Statutorily required contribution	\$ 2,834	\$ 2,788	\$ 2,585	\$ 2,475	\$ 2,166	Information not available
City's contributions in relation to the statutorily required contribution	(2,834)	(2,788)	(2,585)	(2,475)	(2,166)	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	<u>\$ 1,574,322</u>	<u>\$ 1,595,363</u>	<u>\$ 1,659,203</u>	<u>\$ 1,548,330</u>	<u>\$ 1,558,312</u>	
City's contributions as a percentage of covered payroll	0.18%	0.17%	0.16%	0.16%	0.14%	

PSPRS-Pension

	Reporting Fiscal Year								
	2021	2020	2019	2018	2017	2016	2015	2014	2013 through 2012
Actuarially determined contribution	\$ 777,219	\$ 890,892	\$ 519,733	\$ 503,731	\$ 456,574	\$ 495,281	\$ 307,328	\$ 281,536	Information not available
City's contributions in relation to the actuarially determined contribution	(1,397,798)	(890,892)	(519,733)	(503,731)	(456,574)	(495,281)	(307,328)	(281,536)	
City's contribution deficiency (excess)	<u>\$ (620,579)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 676,272</u>	<u>\$ 623,967</u>	<u>\$ 606,305</u>	<u>\$ 332,835</u>	<u>\$ 565,676</u>	<u>\$ 671,533</u>	<u>\$ 697,600</u>	<u>\$ 612,402</u>	
City's contributions as a percentage of covered payroll	114.93%	142.78%	85.72%	151.35%	80.71%	73.75%	44.06%	45.97%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Schedule of City Pension/OPEB Contributions
June 30, 2021

PSPRS-OPEB

	Reporting Fiscal Year					
	2021	2020	2019	2018	2017	2016 through 2012
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	Information not available
City's contributions in relation to the actuarially determined contribution	-	-	-	-	-	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered payroll	<u>\$ 676,272</u>	<u>\$ 623,967</u>	<u>\$ 606,305</u>	<u>\$ 527,976</u>	<u>\$ 565,676</u>	
City's contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	

See accompanying notes to pension/OPEB plan schedules.

City of Holbrook, Arizona
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2021

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2019 actuarial valuation	17 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%–8.0% to 3.5%–7.5% for PSPRS. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0% for PSPRS. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

NOTE 2 – FACTORS THAT AFFECT TRENDS

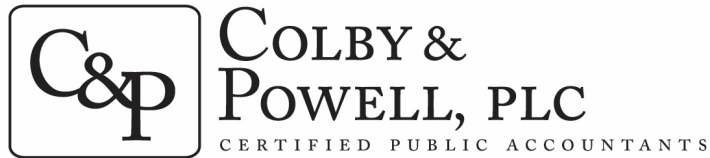
Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2020 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes increased the PSPRS-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's

City of Holbrook, Arizona
Required Supplementary Information
Notes to Pension/OPEB Plan Schedules
June 30, 2021

NOTE 2 – FACTORS THAT AFFECT TRENDS – Continued

effective date. These changes will increase the PSPRS-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. Also, the City refunded excess employee contributions to PSPRS members. PSPRS allowed the City to reduce its actual employer contributions for the refund amounts. As a result, the City's pension contributions were less than the actuarially or statutorily determined contributions for 2018 and 2019.

REPORTS AND SCHEDULES REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS



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

To the City Council
City of Holbrook, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Holbrook, Arizona, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Holbrook, Arizona's, basic financial statements, and have issued our report thereon dated October 19, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items **2021-01** and **2021-02** to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompany schedule of findings and questioned costs as item **2021-03** to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Holbrook, Arizona's financial statements are free 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*.

City of Holbrook, Arizona's Response to Findings

The City of Holbrook, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Holbrook, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 19, 2021

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2021

Financial Statement Findings

Item: 2021-01

Subject: Purchasing policy

Condition: During our audit it was noted that the City is not consistently following its approved purchasing policy by requiring all purchases to have an approved purchase order/requisition which has been signed by the Finance Director and/or the City Manager.

Recommendation: Management should follow approved purchasing policies and procedures. Purchase orders help a purchasing agent to manage incoming orders and pending orders. They also benefit the City by empowering department heads giving them control over department spending and budgeting.

Response: Management agrees with this finding and will look into improving currently approved policies and procedures and implement the new policies and procedures.

Item: 2021-02 (Repeat finding)

Subject: Misstatements requiring audit adjustments.

Condition: During our audit we noted misstatements that were not identified by the City's finance department which required us to propose adjusting journal entries.

Recommendation: We recommend that management review all audit entries to help in identifying areas in the accounting system that required adjustment. The finance department should ensure that these areas are complete before each audit.

Response: Management agrees with this finding and will work on improving the accounting reconciliations to ensure that there are less audit adjustments.

City of Holbrook, Arizona
Schedule of Findings and Responses
June 30, 2021

Item: 2021-03 (Repeat finding)

Subject: Formal written accounting policies and procedures.

Condition: During our audit, it was noted that there are no written accounting policies and procedures.

Recommendation: We recommend that the City institute a program to methodically identify and document its significant accounting processes. Accounting processes, in particular, are procedure to initiate, authorize, record, process, and report transactions. Processes include activities and procedures involved in repeatable accounting transactions or events, such as paying invoices, processing payroll, taking physical inventory, preparing journal entries, etc.

Response: Management is currently in the process of updating the City's formal written accounting policies and procedures manual.