

CITY OF GLOBE, ARIZONA

Annual Financial Statements
and
Independent Auditors' Report
June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Globe, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Globe, Arizona as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Globe, 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, each major fund, and the aggregate remaining fund information of the City of Globe, Arizona, as of June 30, 2017, 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 on pages 4 through 12, budgetary comparison schedules on pages 70 through 72, schedule of the City's proportionate share of the net pension liability – cost-sharing pension plans on page 73, schedule of changes in the City's net pension liability (asset) and related ratios – agent pension plans on pages 74 and 75, schedule of City pension contributions on pages 76 through 78, and schedule of agent OPEB plans' funding progress on pages 79 through 80 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Globe, Arizona's basic financial statements. The combining and individual nonmajor fund financial statements and nonmajor budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, nonmajor budgetary comparison schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, nonmajor budgetary comparison schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the City of Globe, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Globe, 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. According, 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, insofar as they relate to accounting matters.



May 31, 2018

CITY OF GLOBE, ARIZONA
Management's Discussion and Analysis
June 30, 2017

Within this section of the City of Globe (City) annual financial report, the City's management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2017. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Financial Highlights

- The City's assets exceeded its liabilities by \$10,683,208 (net position) for the fiscal year reported.
- Total net position is comprised of the following:
 - (1) Capital assets net of related debt of \$13,761,202 includes property and equipment, net of accumulated depreciation and reduced by outstanding debt related to the purchase of capital assets.
 - (2) Net position of \$748,220 is restricted for various purposes.
 - (3) Unrestricted net position is a long-term measurement of the City as a whole representing the portion available for the City's obligations to citizens and creditors and was negative (\$3,826,214) at fiscal year-end. This amount increased by \$517,741 from the prior year. The primary cause of the deficit net position is due to the \$16,726,790 in long-term net pension liabilities to be funded through future years' revenue.
- The City's governmental funds reported a total ending fund balance of \$5,110,694. This compares to the prior year total ending fund balance, as restated, of \$5,824,000 reflecting a decrease of (\$713,306) during the current year.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the City's basic financial statements. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The City also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The City's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information about the City's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these government-wide statements is the Statement of Net Position. This is the citywide statement of financial position presenting information that includes all of the City's assets and

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Management's Discussion and Analysis
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liabilities, with the difference reported as net position. Over time, increases in net position may serve as a useful indicator of whether the financial position of the City as a whole is improving or deteriorating.

The second government-wide statement is the Statement of Activities, which reports how the City's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

Both government-wide financial statements distinguish governmental activities of the City that are principally supported by taxes and intergovernmental revenues, such as grants, from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. Governmental activities include general government, public safety, public services, and recreation. The business-type activities are the water and sewer utilities.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The City has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the City's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives. Budgetary comparison schedules can be found in a later section of this report.

Proprietary funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. The Water and Sewer Utility funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the City organization for water and sewer services.

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Fiduciary funds such as the Volunteer Firemen's Relief and Pension Fund are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund city programs and are reported similarly to proprietary funds.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparison schedules. These schedules demonstrate compliance with the City's adopted and final revised budget. Supplementary information follows the notes to the financial statements. Combining financial statements are provided for nonmajor governmental funds totaled in one column on the fund financial statements.

Financial Analysis of the City as a Whole

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

The following table provides a summary of the City's net position at June 30, 2017:

SUMMARY OF NET POSITION

	<u>Governmental Activities</u> 2017	<u>Business-type Activities</u> 2017	<u>Totals</u> 2017	<u>Totals (as restated)</u> 2016	<u>Amount Change</u>
Current and other assets	\$ 6,316,281	\$ 5,999,222	\$ 12,315,503	\$ 11,885,775	\$ 429,728
Capital assets	5,493,389	13,560,711	19,054,100	17,274,891	1,779,209
Total assets	<u>11,809,670</u>	<u>19,559,933</u>	<u>31,369,603</u>	<u>29,160,666</u>	<u>2,208,937</u>
Deferred outflows of resources	4,981,655	197,956	5,179,611	3,069,360	2,110,251
Current liabilities	1,517,089	647,633	2,164,722	1,355,623	809,099
Noncurrent liabilities	15,853,985	6,316,405	22,170,390	22,901,161	(730,771)
Total liabilities	<u>17,371,074</u>	<u>6,964,038</u>	<u>24,335,112</u>	<u>24,256,784</u>	<u>78,328</u>
Deferred inflows of resources	1,325,257	205,637	1,530,894	1,385,516	145,378
Net investment in capital assets	5,769,400	7,991,802	13,761,202	10,059,702	3,701,500
Restricted	253,509	494,711	748,220	871,979	(123,759)
Unrestricted	<u>(7,927,915)</u>	<u>4,101,701</u>	<u>(3,826,214)</u>	<u>(4,343,955)</u>	<u>517,741</u>
Total net position	<u>\$ (1,905,006)</u>	<u>\$ 12,588,214</u>	<u>\$ 10,683,208</u>	<u>\$ 6,587,726</u>	<u>\$ 4,095,482</u>

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The City reported a negative net position for governmental activities and a positive balance in net position for business-type activities. Net position increased by \$722,015 for governmental activities and increased by \$3,373,467 for business-type activities.

The following table provides a summary of the City's changes in net position for the year ended June 30, 2017.

SUMMARY OF CHANGES IN NET POSITION

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Totals (as restated)</u>	<u>Amount Change</u>
	2017	2017	2017	2016	
Revenues					
Program revenues:					
Charges for services	\$ 1,604,764	\$ 3,441,265	\$ 5,046,029	\$ 4,336,433	\$ 709,596
Operating grants and contributions	1,621,350	-	1,621,350	1,548,150	73,200
Capital grants and contributions	393,877	3,000,000	3,393,877	121,023	3,272,854
General revenues:					
City sales tax	4,321,259	-	4,321,259	3,725,191	596,068
State taxes and shared revenues	2,047,605	-	2,047,605	2,065,986	(18,381)
Property tax	504,704	-	504,704	493,966	10,738
Franchise tax	231,803	-	231,803	743,323	(511,520)
Gain on investments	32,561	-	32,561	13,683	18,878
Gain on sale of assets	3,500	-	3,500	-	3,500
Miscellaneous	146,288	-	146,288	215,544	(69,256)
Total revenues	<u>10,907,711</u>	<u>6,441,265</u>	<u>17,348,976</u>	<u>13,263,299</u>	<u>4,085,677</u>
Expenses					
General government	1,565,904	-	1,565,904	1,724,610	(158,706)
Public safety	5,718,155	-	5,718,155	5,523,935	194,220
Public works and streets	1,794,953	-	1,794,953	2,176,937	(381,984)
Parks and recreation	312,300	-	312,300	442,763	(130,463)
Sanitation	615,952	-	615,952	546,147	69,805
Welfare	177,065	-	177,065	172,375	4,690
Interest on long-term debt	1,367	-	1,367	-	1,367
Water utility	-	2,012,064	2,012,064	2,077,338	(65,274)
Sewer utility	-	1,055,734	1,055,734	1,237,421	(181,687)
Total expenses	<u>10,185,696</u>	<u>3,067,798</u>	<u>13,253,494</u>	<u>13,901,526</u>	<u>(648,032)</u>
Change in net position	722,015	3,373,467	4,095,482	(638,227)	4,733,709
Beginning net position	<u>(2,627,021)</u>	<u>9,214,747</u>	<u>6,587,726</u>	<u>7,225,953</u>	<u>(638,227)</u>
Ending net position	<u>\$ (1,905,006)</u>	<u>\$ 12,588,214</u>	<u>\$ 10,683,208</u>	<u>\$ 6,587,726</u>	<u>\$ 4,095,482</u>

Financial Analysis of the City's Funds

Governmental funds

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements.

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Revenues of the governmental funds totaled \$10,892,764 in 2016-2017, an increase of 9% from 2015-2016. A comparative summary of principal revenues is as follows:

	2016-2017	Increase (Decrease) from 2015-2016		2015-2016
		Amount	%	
Taxes	\$ 4,825,963	\$ 396,138		\$ 4,429,825
Intergovernmental	3,992,878	446,729		3,546,149
Charges for services	930,758	(49,652)		980,410
Licences, permits and fees	557,677	15,163		542,514
Franchise fees	231,803	(3,020)		234,823
Other revenue	142,557	36,717		105,840
Fines and forfeitures	178,567	57,346		121,221
Interest	32,561	18,878		13,683
Total revenues	\$ 10,892,764	\$ 918,299	9%	\$ 9,974,465

Expenditures of the governmental funds totaled \$11,768,642 in 2016-2017, an increase of 20% from the prior year. The schedule that follows summarizes the expenditures.

	2016-2017	Increase (Decrease) from 2015-2016		2015-2016
		Amount	%	
General government	\$ 1,456,785	\$ (88,675)		\$ 1,545,460
Public safety	5,933,987	715,664		5,218,323
Public works and streets	1,726,487	(149,034)		1,875,521
Parks and recreation	375,442	47,974		327,468
Sanitation	601,712	59,663		542,049
Welfare	182,346	14,464		167,882
Debt service	26,217	16,655		9,562
Capital outlay	1,465,666	1,345,531		120,135
Total revenues	\$ 11,768,642	\$ 1,962,242	20%	\$ 9,806,400

Revenues (\$10,892,764) were less than expenditures (\$11,768,642) by \$875,878 and revenues from other financing sources of \$162,572 decreased the City's overall governmental fund balance carryover from \$5,824,000 at June 30, 2016 to \$5,110,694 at June 30, 2017.

Proprietary funds

The proprietary fund statements share the same focus as the government-wide statements, reporting both short-term and long-term information about financial status. The net position of these funds increased by \$3,373,467 for the year ended June 30, 2017. The primary cause of the increase relates to the 2014 Water Infrastructure Finance Authority (WIFA) bond reimbursement of \$3,000,000.

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City Payroll and Fringe Benefits

The City's gross payroll for 2016-2017 was \$4,122,699, a decrease 6% or \$242,804, from 2015- 2016. A summary by department follows:

	2016-2017	Increase (Decrease) from 2015-2016		2015-2016
		Amount	%	
General government	\$ 461,091	\$ 33,153		\$ 427,938
Public safety	2,180,997	(259,688)		2,440,685
Public works and streets	606,249	(34,133)		640,382
Parks and recreation	167,371	15,098		152,273
Welfare	64,078	4,803		59,275
Water utility	393,202	(36,700)		429,902
Sewer utility	249,711	34,663		215,048
Total revenues	\$ 4,122,699	\$ (242,804)	-6%	\$ 4,365,503

The following payroll fringe benefits amounted to \$4,149,200, an increase of \$1,120,316, or 37%. The increase was due to increases in the required contribution for the pensions, as follows:

	2016-2017	Increase (Decrease) from 2015-2016		2015-2016
		Amount	%	
Social security and Medicare taxes	\$ 255,156	\$ 8,192		\$ 246,964
State retirement contributions	253,447	21,799		231,648
Policemen's pension contributions	1,266,448	732,021		534,427
Regular firemen's pension contributions	908,146	506,206		401,940
Elected officials retirement contributions	6,507	21		6,486
Industrial insurance	114,779	(42,473)		157,252
Health and life insurance	1,344,717	(105,450)		1,450,167
Total revenues	\$ 4,149,200	\$ 1,120,316	37%	\$ 3,028,884

Fringe benefits provided by the City (\$4,149,200) amounted to 101% of the total gross payroll (\$4,122,699).

Analysis of Balances of City's Individual Funds

As of the end of the current fiscal year, the City's individual governmental funds reported a combined fund balance \$5,110,604, a decrease of \$713,306 in comparison with the prior year. Approximately 95.53% of this total amount (\$4,882,173) constitutes the General Fund Balance, which is available for its ongoing obligations.

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At June 30, 2017 fund balances were as follows:

	<u>2016-2017</u>	<u>Increase (Decrease) from</u> <u>2015-2016</u>		<u>2015-2016</u>
		<u>Amount</u>	<u>%</u>	
Governmental Funds:				
General Fund	\$ 4,882,173	\$ (627,700)		\$ 5,509,873
Highway Users Fund	17,238	17,238		-
Grants Fund	80,896	80,896		-
Active Adult Center Fund	(61,206)	(61,206)		-
Library Fund	(44,678)	(44,678)		-
Transportation Excise Tax Fund	236,271	(77,856)		314,127
Total	\$ 5,110,694	\$ (713,306)	-12%	\$ 5,824,000
Proprietary Funds:				
Water Utility Fund	8,354,562	3,337,939		5,016,623
Sewer Utility Fund	4,233,652	35,528		4,198,124
Total	\$ 12,588,214	\$ 3,373,467	37%	\$ 9,214,747

Budgetary Highlights

Schedules showing the budget amounts compared to the City's actual financial activity for the General Fund and the Transportation Excise Tax Fund are provided in this report as required supplementary information. For the General Fund, revenues are \$226,900 under budget, expenses are \$3,671,843 under budget, and other financing sources are \$162,572 over budget creating a positive variance of \$3,607,515.

Budgetary highlights for the General Fund are as follows:

Revenues:

- Actual revenues for licenses, permits, and fees fell short of budget by \$309,923 due to anticipated development for building permit and review fees that did not materialize in fiscal year 2017.
- Revenues for the contract with SWG for fees should have been around \$36K in the FY17 budget and was mistakenly appropriated at \$75,000 due to backlog of payments from prior fiscal years.

Expenses:

- In General Government, there was \$2,509,836 appropriated for carryforward fund balance in the event the City had a revenue shortfall and/or unexpected emergency expense. Of this total, the City only used \$153,000 for a Fire Truck purchase.
- Also in General Government, there was \$373,493 appropriated for the reserve held for employer paid insurance premiums that could be used by the City to pay health insurance. This was not spent in fiscal year 2017. Administration did overexpend their total FY17 budget by \$18,837 but expenditures were approved by the Council.

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Budgetary Highlights for the Transportation Excise Fund are as follows:

Revenues:

- Actual revenues were \$30,171 less than what was budgeted in FY17. This is the transportation tax that is collected by Gila County and distributed to the Cities and Towns in Gila County and the decrease is a result of a decrease in amount of sales tax sales.

Expenses:

- The expenses were \$173,259 less than what was appropriated for street projects in FY17. These funds can only be spent on street projects and will be carried forward to be used in FY18.

Capital Asset and Debt Administration

Capital Assets

The following is a comparison of capital assets net of depreciation for 2017 and 2016.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,323,644	\$ 1,298,822	\$ 287,893	\$ 287,893
Construction in progress	-	-	1,035,329	4,919,129
Buildings	1,235,413	1,347,291	1,699,015	1,655,273
Street infrastructure and other improvements	1,789,998	1,026,501	9,897,991	5,602,266
Machinery and equipment	1,144,334	812,387	640,483	325,329
	<u>\$ 5,493,389</u>	<u>\$ 4,485,001</u>	<u>\$ 13,560,711</u>	<u>\$ 12,789,890</u>

Long-Term Obligations

The City's Water Utility borrowed an additional \$1,241,992 of the 2014 WIFA loans to fund additional water and well system expenditures. In addition to the existing capital lease agreement for road construction equipment the City entered into another lease agreement for \$162,572 for two police vehicles and \$305,524 for water and sewer vehicles.

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FISCAL YEAR 2016-2017 ACCOMPLISHMENTS

The City has on credit, prepaid health insurance premiums with Blue Cross Blue Shield (City's health insurance company) in the amount of \$619,849 as of June 30, 2017. This had not been recorded in prior fiscal years. Interest income on City investments with the Local Government Investment Pool (LGIP) increased \$18,878 from the prior year. State-shared revenues decreased \$18,383 from the prior year.

FYE 15-16 the City was facing approximately \$14,000,000 debt in unfunded pension liability, primarily composed of \$11,000,000 in PSPRS debt. In order to reduce this severe liability in the future, in June 2016, the City Council created a PSPRS Funding Task Force to explore alternate PSPRS funding options to address the PSPRS Reform signed into law in February 2016. As of June 30, 2017, the Task Force recommended a .3% sales tax increase designated to paying down the unfunded liability. Additionally, the Task Force recommended allocating \$1,000,000 from the General Fund, once the final budget was approved, to pay toward the \$10,000,000 liability. Globe has a \$16,725,790 debt in unfunded liability to PSPRS, EORP and ASRS. The PSPRS debt unfunded liability is \$12,988,144, the EORP debt unfunded liability is \$324,824, and the ASRS debt unfunded liability is \$3,413,822. While this has no impact on the current FYE, it should pay dividends in the future.

The City chose not to issue a water and sewer rate increase during the 2016-2017 fiscal year. Water and sewer revenues held stable so it was determined not to implement an increase for this year.

June 2015, the City entered into an agreement with the Water Infrastructure Finance Authority of Arizona (WIFA) that provides \$5,500,000 in financial assistance for drinking water capital improvement projects. \$3,000,000 is in grants and \$2,500,000 is in revenue bonds payable over twenty years at 2.333%. In June of 2017, the City entered into agreement with WIFA that provides \$3,000,000 for financial assistance for drinking water capital improvement projects. \$750,000 is in grants and \$2,250,000 in revenue bonds payable over twenty years at 2.016%. The total WIFA bonds payable as of June 30, 2017 was \$5,311,791, or a decrease of \$2,052,758 from the prior year.

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 Globe, 150 N. Pine St., Globe, Arizona 85501.

FINANCIAL SECTION

CITY OF GLOBE, ARIZONA
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,834,090	\$ 5,074,775	\$ 9,908,865
Restricted cash	-	563,322	563,322
Accounts receivable - net	186,610	361,125	547,735
Due from other governments	529,529	-	529,529
Other receivables	66,724	-	66,724
Taxes receivable	41,371	-	41,371
Prepays	627,444	-	627,444
Inventory	30,513	-	30,513
Capital assets, not being depreciated	1,323,644	1,323,222	2,646,866
Capital assets, being depreciated, net	4,169,745	12,237,489	16,407,234
Total assets	11,809,670	19,559,933	31,369,603
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	4,981,655	197,956	5,179,611
LIABILITIES			
Accounts payable	741,584	99,156	840,740
Accrued expenses	302,761	24,514	327,275
Interest payable	-	71,684	71,684
Refundable deposits	-	68,611	68,611
PSPRS Hall-Parker liability	262,121	-	262,121
Noncurrent liabilities			
Due within 1 year	210,623	383,668	594,291
Due in more than 1 year	15,853,985	6,316,405	22,170,390
Total liabilities	17,371,074	6,964,038	24,335,112
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,325,257	205,637	1,530,894
NET POSITION			
Net investment in capital assets	5,769,400	7,991,802	13,761,202
Restricted for			
Highways and streets	253,509	-	253,509
Debt service	-	371,405	371,405
Repairs and replacements	-	123,306	123,306
Unrestricted	(7,927,915)	4,101,701	(3,826,214)
Total net position	\$ (1,905,006)	\$ 12,588,214	\$ 10,683,208

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Activities
Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 1,565,904	\$ 602,122	\$ 38,947	\$ -	\$ (924,835)	\$ -	\$ (924,835)
Public safety	5,718,155	178,567	140,627	393,877	(5,005,084)	-	(5,005,084)
Public works and streets	1,794,953	-	1,238,234	-	(556,719)	-	(556,719)
Parks and recreation	312,300	206,096	82,402	-	(23,802)	-	(23,802)
Sanitation	615,952	617,979	-	-	2,027	-	2,027
Welfare	177,065	-	121,140	-	(55,925)	-	(55,925)
Interest on long-term debt	1,367	-	-	-	(1,367)	-	(1,367)
Total governmental activities	10,185,696	1,604,764	1,621,350	393,877	(6,565,705)	-	(6,565,705)
Business-type activities							
Water	2,012,064	2,350,003	-	3,000,000	-	3,337,939	3,337,939
Sewer	1,055,734	1,091,262	-	-	-	35,528	35,528
Total business-type activities	3,067,798	3,441,265	-	3,000,000	-	3,373,467	3,373,467
Total primary government	\$ 13,253,494	\$ 5,046,029	\$ 1,621,350	\$ 3,393,877	(6,565,705)	3,373,467	(3,192,238)
General revenue:							
Taxes:							
Sales tax					4,321,259	-	4,321,259
Property tax					504,704	-	504,704
Franchise tax					231,803	-	231,803
State urban revenue sharing					904,847	-	904,847
Share of state sales taxes					676,795	-	676,795
Share of county auto lieu taxes					465,963	-	465,963
Investment income					32,561	-	32,561
Miscellaneous					146,288	-	146,288
Gain on sale of assets					3,500	-	3,500
Total general revenue					7,287,720	-	7,287,720
Change in net position					722,015	3,373,467	4,095,482
Net position, beginning of year, restated					(2,627,021)	9,214,747	6,587,726
Net position, end of year					\$ (1,905,006)	\$ 12,588,214	\$ 10,683,208

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Transportation Excise Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 4,101,357	\$ 649,777	\$ 82,956	\$ 4,834,090
Accounts receivable, net	186,610	-	-	186,610
Due from other governments	352,204	38,776	138,549	529,529
Other receivables	66,724	-	-	66,724
Taxes receivable	41,371	-	-	41,371
Due from other funds	126,800	-	-	126,800
Prepays	627,444	-	-	627,444
Inventory	30,513	-	-	30,513
Total assets	<u>5,533,023</u>	<u>688,553</u>	<u>221,505</u>	<u>6,443,081</u>
LIABILITIES				
Accounts payable	201,885	452,282	87,417	741,584
Accrued expenses	287,723	-	15,038	302,761
Due to other funds	-	-	126,800	126,800
Total liabilities	<u>489,608</u>	<u>452,282</u>	<u>229,255</u>	<u>1,171,145</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	161,242	-	-	161,242
FUND BALANCES				
Unspendable	784,757	-	-	784,757
Restricted for:				
Highways and streets	-	236,271	17,238	253,509
Committed	102,004	-	-	102,004
Unassigned	3,995,412	-	(24,988)	3,970,424
Total fund balances	<u>4,882,173</u>	<u>236,271</u>	<u>(7,750)</u>	<u>5,110,694</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,533,023</u>	<u>\$ 688,553</u>	<u>\$ 221,505</u>	<u>\$ 6,443,081</u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2017

Fund balances-total governmental funds		\$ 5,110,694
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		5,493,389
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as		
Property taxes	30,574	
Fines	<u>130,668</u>	
		161,242
Long-term liabilities, such as net pension liabilities and notes payable, are not due and payable in the current period and, therefore, are not reported as a liability in		
OPEB liability	(26,617)	
Capital leases payable	(181,267)	
Compensated absences	(205,971)	
PSPRS Hall-Parker liability	(262,121)	
Net pension liability	<u>(15,650,753)</u>	
		(16,326,729)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		<u>3,656,398</u>
Net position of governmental activities		<u><u>\$ (1,905,006)</u></u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2017

	General Fund	Transportation Excise Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 4,825,963	\$ -	\$ -	\$ 4,825,963
Intergovernmental	2,047,605	437,193	1,508,080	3,992,878
Charges for services	930,758	-	-	930,758
Licenses, permits and fees	557,677	-	-	557,677
Franchise fees	231,803	-	-	231,803
Other revenue	116,060	-	26,497	142,557
Fines and forfeitures	178,567	-	-	178,567
Interest	32,561	-	-	32,561
Total revenues	<u>8,920,994</u>	<u>437,193</u>	<u>1,534,577</u>	<u>10,892,764</u>
Expenditures				
Current				
General government	1,456,785	-	-	1,456,785
Public safety	5,924,441	-	9,546	5,933,987
Public works and streets	1,023,542	-	702,945	1,726,487
Parks and recreation	185,855	-	189,587	375,442
Sanitation	601,712	-	-	601,712
Welfare	-	-	182,346	182,346
Debt Service				
Principal	24,850	-	-	24,850
Interest	1,367	-	-	1,367
Capital outlay	492,714	515,049	457,903	1,465,666
Total expenditures	<u>9,711,266</u>	<u>515,049</u>	<u>1,542,327</u>	<u>11,768,642</u>
Excess (deficiency) of revenues over (under) expenditures	(790,272)	(77,856)	(7,750)	(875,878)
Other financing sources (uses)				
Capital lease agreement	162,572	-	-	162,572
Net change in fund balances	(627,700)	(77,856)	(7,750)	(713,306)
Fund balances, beginning of year, restated	5,509,873	314,127	-	5,824,000
Fund balances, end of year	<u>\$ 4,882,173</u>	<u>\$ 236,271</u>	<u>\$ (7,750)</u>	<u>\$ 5,110,694</u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2017

Net change in fund balances-total governmental funds \$ (713,306)

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

Governmental funds report capital outlays as
expenditures. However, in the Statement of Activities, the
cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense.

Capital outlay	1,465,666	
Depreciation expense	<u>(457,278)</u>	
		1,008,388

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

Town pension contributions	2,439,135	
Pension expense	<u>(1,820,166)</u>	
		618,969

Debt proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term
liabilities in the statement of net position. Repayment of
debt principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the
Statement of Net Position.

Capital leases incurred	(162,572)	
Capital lease principal repaid	<u>24,850</u>	
		(137,722)

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.

PSPRS Hall-Parker liability	(262,121)	
Decrease in OPEB liability	8,072	
Decrease in compensated absences payable	<u>199,735</u>	
		<u>(54,314)</u>

Change in net position of governmental activities \$ 722,015

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Net Position
Proprietary Funds
June 30, 2017

	Business-type Activities - Enterprise Funds		
	Water Utility	Sewer Utility	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 3,125,018	\$ 1,949,757	\$ 5,074,775
Cash and cash equivalents, restricted	563,322	-	563,322
Accounts receivable, net	255,329	105,796	361,125
Total current assets	<u>3,943,669</u>	<u>2,055,553</u>	<u>5,999,222</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation, where applicable	10,938,821	2,621,890	13,560,711
Total assets	<u>14,882,490</u>	<u>4,677,443</u>	<u>19,559,933</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	124,162	73,794	197,956
LIABILITIES			
Current liabilities			
Accounts payable	89,803	9,353	99,156
Accrued expenses	15,502	9,012	24,514
Accrued interest payable	71,684	-	71,684
Current portion of compensated absences	25,266	16,079	41,345
Current portion of capital leases payable	38,628	-	38,628
Current portion of loans payable	303,695	-	303,695
Customer deposits	68,611	-	68,611
Total current liabilities	<u>613,189</u>	<u>34,444</u>	<u>647,633</u>
Noncurrent liabilities			
Compensated absences, net of current portion	8,422	5,360	13,782
Capital leases payable, net of current portion	218,490	-	218,490
Loans payable, net of current portion	5,008,096	-	5,008,096
Net pension liability	674,913	401,124	1,076,037
Total noncurrent liabilities	<u>5,909,921</u>	<u>406,484</u>	<u>6,316,405</u>
Total liabilities	<u>6,523,110</u>	<u>440,928</u>	<u>6,964,038</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	128,980	76,657	205,637
NET POSITION			
Net investment in capital assets	5,369,912	2,621,890	7,991,802
Restricted	494,711	-	494,711
Unrestricted (deficit)	2,489,939	1,611,762	4,101,701
Total net position	<u>\$ 8,354,562</u>	<u>\$ 4,233,652</u>	<u>\$ 12,588,214</u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2017

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 2,268,292	\$ 1,086,042	\$ 3,354,334
Miscellaneous	81,711	5,220	86,931
Total operating revenues	<u>2,350,003</u>	<u>1,091,262</u>	<u>3,441,265</u>
Operating expenses			
Depreciation	444,311	265,833	710,144
Salaries and wages	393,202	249,711	642,913
Utilities	321,771	85,828	407,599
Employee benefits	240,407	159,109	399,516
Professional services	91,860	111,110	202,970
Materials and supplies	60,508	47,258	107,766
Repairs and maintenance	248,439	79,001	327,440
Insurance	56,945	18,377	75,322
Other	15,434	39,507	54,941
Total operating expenses	<u>1,872,877</u>	<u>1,055,734</u>	<u>2,928,611</u>
Operating income (loss)	<u>477,126</u>	<u>35,528</u>	<u>512,654</u>
Nonoperating revenues (expenses)			
Interest expense	<u>(139,187)</u>	<u>-</u>	<u>(139,187)</u>
Income (loss) before contributions, gains, losses, and transfers	337,939	35,528	373,467
Capital contribution	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Increase (decrease) in net position	3,337,939	35,528	3,373,467
Total net position, beginning of year, restated	<u>5,016,623</u>	<u>4,198,124</u>	<u>9,214,747</u>
Total net position, end of year	<u>\$ 8,354,562</u>	<u>\$ 4,233,652</u>	<u>\$ 12,588,214</u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	<u>Business-type Activities--Enterprise Funds</u>		
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Total</u>
Cash flows from operating activities:			
Receipts from customers	\$ 2,359,758	\$ 1,088,475	\$ 3,448,233
Payments to suppliers and providers of goods and services	(1,283,727)	(545,875)	(1,829,602)
Payments to employees	(408,782)	(237,580)	(646,362)
Net cash provided by (used for) operating activities	<u>667,249</u>	<u>305,020</u>	<u>972,269</u>
Cash flows from capital and related financing activities:			
Purchase of capital assets	(1,092,832)	(82,609)	(1,175,441)
Principal paid on loans payable	(294,750)	-	(294,750)
Interest paid	(125,183)	-	(125,183)
Principal paid on capital leases	(48,406)	-	(48,406)
Proceeds from capital grants	326,735	-	326,735
Proceeds from loans payable	1,241,992	-	1,241,992
Net cash provided by (used for) capital and related financing activities	<u>7,556</u>	<u>(82,609)</u>	<u>(75,053)</u>
Net increase (decrease) in cash and cash equivalents	674,805	222,411	897,216
Cash and cash equivalents, beginning of year	<u>3,013,535</u>	<u>1,727,346</u>	<u>4,740,881</u>
Cash and cash equivalents, end of year	<u>\$ 3,688,340</u>	<u>\$ 1,949,757</u>	<u>\$ 5,638,097</u>
Cash and cash equivalents	\$ 3,125,018	\$ 1,949,757	\$ 5,074,775
Cash and cash equivalents, restricted	<u>563,322</u>	<u>-</u>	<u>563,322</u>
Cash and cash equivalents, end of year	<u>\$ 3,688,340</u>	<u>\$ 1,949,757</u>	<u>\$ 5,638,097</u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017
(Continued)

	Business-type Activities--Enterprise Funds		
	Water Utility	Sewer Utility	Total
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 477,126	\$ 35,528	\$ 512,654
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	444,311	265,833	710,144
Pension expense	3,615	2,148	5,763
Employer pension contributions	(10,038)	35,438	25,400
(Increase) decrease in:			
Accounts receivable	5,949	(2,787)	3,162
Increase (decrease) in:			
Accounts payable	(241,940)	(43,271)	(285,211)
Accrued expenses	15,502	9,012	24,514
Customer deposits	3,806	-	3,806
Compensated absences payable	(31,082)	3,119	(27,963)
Net cash provided by (used for) operating activities	\$ 667,249	\$ 305,020	\$ 972,269
 Non-cash investing and financing activities:			
Capital contribution from forgiveness of WIFA debt	\$ 3,000,000	\$ -	\$ 3,000,000
Acquisition of capital assets financed by:			
Capital leases payable	\$ 305,524	\$ -	\$ 305,524

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2017

	<u>Volunteer Firefighters' Relief and Pension</u>
ASSETS	
Cash and cash equivalents	\$ 30,989
Due from City	<u>39</u>
Total assets	<u>31,028</u>
LIABILITIES	
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for investment trust participants	<u><u>\$ 31,028</u></u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2017

	<u>Volunteer Firefighters' Relief and Pension</u>
Additions	
Contributions from participants	\$ 208
Investment income	<u>192</u>
Total additions	<u>400</u>
Deductions	
Distributions to participants	<u>6,475</u>
Change in net position	(6,075)
Net position, beginning of year	<u>37,103</u>
Net position, end of year	<u><u>\$ 31,028</u></u>

See accompanying notes to financial statements.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Globe, Arizona have been prepared in conformity with U.S. 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).

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 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 overall government's financial activities, except for fiduciary activities. They also distinguish between the City's governmental and business-type activities. 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, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the City levies or imposes, are reported as general revenues.

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

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary 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. Fiduciary funds are aggregated and reported by fund type.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund’s principal activity. Accordingly, revenues, such as user charges and insurance premiums, in which each party receives and gives up essentially equal values are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues ancillary activities generate. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered 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 ***Transportation Excise Tax Fund*** accounts for specific revenue received from Gila County Transportation Excise Tax Fund that is legally restricted to expenditures for highway and street purpose.

The City reports the following major enterprise funds:

The ***Water*** and ***Sewer 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 goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or for which the City Council has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The City reports the following fund types:

The *Volunteer Firefighters' Relief and Pension Fund* accounts for the City's Volunteer Firefighter's Relief and Pension Fund, a defined contribution plan for which the assets are held by the City in a trustee capacity.

C. Basis of Accounting

The government-wide, proprietary fund, and fiduciary 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.

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

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 they become both 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. The City's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, landfill closure and postclosure care costs, and pollution remediation obligations, 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.

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.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Inventories

The City accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for sale and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and as nonspendable fund balance to indicate that they do not constitute “available spendable resources.” These inventories are stated at cost using the first-in, first-out (FIFO) method.

F. Allowance for Uncollectible Accounts

Allowances for uncollectible accounts receivable in the proprietary funds are estimated by the City. The amount recorded as uncollectible at June 30, 2017 in the Water and Sewer Funds, respectively, were \$12,242 and \$5,075.

G. Property Tax Calendar

Property taxes are recognized as revenue in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end are reported as unavailable revenue. Property taxes collected in advance of the fiscal year for which they are levied are reported as deferred revenue.

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.

A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer’s Office, and at June 30, 2017, the uncollected property taxes and related allowances for uncollectible amounts (if any) were as follows:

Fiscal Year	General Fund
2016 - 2017	\$ 41,371
Prior	-
Net total	\$ 41,371

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	N/A	N/A
Buildings	5,000	Straight-line	10-40
Furniture, machinery and equipment	5,000	Straight-line	3-20
Infrastructure and improvements	5,000	Straight-line	5-20

I. Investment Income

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

J. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. 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 may accumulate 120 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Impact of Recently Issued Accounting Principles

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City implemented this standard during this fiscal period.

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2017. Upon implementation, it is anticipated that this Statement will cause a restatement of beginning net position of the Governmental Activities, Business-type Activities, and the proprietary funds.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The City implemented this standard during this fiscal period.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

In June 2017, the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

N. Pensions

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

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.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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. The City does not have a formal investment policy with respect to custodial credit risk, concentration of credit risk, or foreign currency risk.

Deposits—At June 30, 2017, the carrying amount of the City's total cash in bank was \$6,999,667, and the bank balances were \$7,429,374. Of the bank balances, \$750,000 was covered by federal depository insurance or similar insurance. The remainder was covered by collateral held by the pledging financial institution in the City's name.

Restricted cash – Restricted cash in the Water Fund consists of monies restricted for refundable customer deposits in the amount of \$68,611, monies restricted for debt service in the amount of \$371,405, and monies restricted for repairs and replacements in the amount of \$123,306.

Investments—The City reported investments in the State Treasurer's Investment Pool 5 with a reported amount of \$3,500,857. The Standard and Poor's credit quality rating of the pool is AAA.

The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 2 – DEPOSITS AND INVESTMENTS – Continued

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

	Governmental activities	Business-type activities	Volunteer Firefighters' Relief and Pension	Total
Cash and cash equivalents:				
Cash on hand	\$ 2,652	\$ -	\$ -	\$ 2,652
Amount of deposits	1,356,712	5,638,097	4,858	6,999,667
State Treasurer's Investment Pool 5	3,474,726	-	26,131	3,500,857
Total	\$ 4,834,090	\$ 5,638,097	\$ 30,989	\$ 10,503,176

NOTE 3 – DUE FROM OTHER GOVERNMENTS

Amounts due at June 30, 2017 from other governments in the Governmental Funds consisted of the following:

Description	General Fund	Transportation Excise Tax Fund	Other Governmental Funds	Total
<u>State of Arizona:</u>				
City sales tax	\$ 275,652	\$ -	\$ -	\$ 275,652
Highway user revenue	-	-	71,572	71,572
Grants	-	-	66,977	66,977
State sales tax	57,948	-	-	57,948
Vehicle license tax	18,604	-	-	18,604
<u>Gila County:</u>				
Transportation Excise Tax	-	38,776	-	38,776
	\$ 352,204	\$ 38,776	\$ 138,549	\$ 529,529

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Governmental activities</u>			
	Balance July 1, 2016	Increases	Reclassification	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 1,298,822	24,822	-	\$ 1,323,644
Total capital assets not being depreciated	<u>1,298,822</u>	<u>24,822</u>	<u>-</u>	<u>1,323,644</u>
Capital assets being depreciated:				
Buildings	4,056,820	11,624	-	4,068,444
Furniture, machinery and equipment	6,329,217	879,146	(349,965)	6,858,398
Street infrastructure and improvements other than buildings	4,250,661	550,074	349,965	5,150,700
Total capital assets being depreciated	<u>14,636,698</u>	<u>1,440,844</u>	<u>-</u>	<u>16,077,542</u>
Less accumulated depreciation for:				
Buildings	(2,709,529)	(123,502)	-	(2,833,031)
Furniture, machinery and equipment	(5,516,830)	(197,234)	-	(5,714,064)
Street infrastructure and improvements other than buildings	(3,224,160)	(136,542)	-	(3,360,702)
Total accumulated depreciation	<u>(11,450,519)</u>	<u>(457,278)</u>	<u>-</u>	<u>(11,907,797)</u>
Total capital assets being depreciated, net	<u>3,186,179</u>	<u>983,566</u>	<u>-</u>	<u>4,169,745</u>
Governmental activities capital assets, net	<u>\$ 4,485,001</u>	<u>\$ 1,008,388</u>	<u>\$ -</u>	<u>\$ 5,493,389</u>
	<u>Business-type activities</u>			
	Balance July 1, 2016	Increases	Reclassification	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 287,893	-	-	\$ 287,893
Construction in progress	4,919,129	1,035,329	(4,919,129)	1,035,329
Total capital assets not being depreciated	<u>5,207,022</u>	<u>1,035,329</u>	<u>(4,919,129)</u>	<u>1,323,222</u>
Capital assets being depreciated:				
Buildings	6,530,994	68,884	285,056	6,884,934
Furniture, machinery and equipment	1,687,647	359,262	65,338	2,112,247
Street infrastructure and improvements other than buildings	12,363,741	17,490	4,568,735	16,949,966
Total capital assets being depreciated	<u>20,582,382</u>	<u>445,636</u>	<u>4,919,129</u>	<u>25,947,147</u>
Less accumulated depreciation for:				
Buildings	(4,875,721)	(203,960)	(106,238)	(5,185,919)
Furniture, machinery and equipment	(1,362,318)	(68,578)	(40,868)	(1,471,764)
Street infrastructure and improvements other than buildings	(6,761,475)	(437,606)	147,106	(7,051,975)
Total accumulated depreciation	<u>(12,999,514)</u>	<u>(710,144)</u>	<u>-</u>	<u>(13,709,658)</u>
Total capital assets being depreciated, net	<u>7,582,868</u>	<u>(264,508)</u>	<u>4,919,129</u>	<u>12,237,489</u>
Business-type activities capital assets, net	<u>\$ 12,789,890</u>	<u>\$ 770,821</u>	<u>\$ -</u>	<u>\$ 13,560,711</u>

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 4 – CAPITAL ASSETS – Continued

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 148,296
Public safety	97,953
Public works and streets	143,365
Parks and recreation	44,516
Sanitation	14,240
Welfare	<u>8,908</u>
 Total governmental activities depreciation expense	 <u><u>\$ 457,278</u></u>
 Business-type activities:	
Water	\$ 444,311
Sewer	<u>265,833</u>
 Total business-type activities depreciation expense	 <u><u>\$ 710,144</u></u>

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – LONG-TERM LIABILITIES

The following schedule details the City’s long-term liability and obligation activity for the year ended June 30, 2017.

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due within 1 year
Governmental activities:					
Compensated absences	\$ 405,706	\$ -	\$ (199,735)	\$ 205,971	\$ 154,478
OPEB liability	34,689	-	(8,072)	26,617	9,600
Capital leases	43,545	162,572	(24,850)	181,267	46,545
Net pension liability	14,332,252	1,318,501	-	15,650,753	-
Governmental activities long-term liabilities	\$ 14,816,192	\$ 1,481,073	\$ (232,657)	\$ 16,064,608	\$ 210,623
Business-type activities:					
Compensated absences	\$ 123,135	\$ -	\$ (68,008)	\$ 55,127	\$ 41,345
Capital leases	-	305,524	(48,406)	257,118	38,628
Loans payable	7,364,549	1,241,992	(3,294,750)	5,311,791	303,695
Net pension liability	1,017,471	58,566	-	1,076,037	-
Business-type activities long-term liabilities	\$ 8,505,155	\$ 1,606,082	\$ (3,411,164)	\$ 6,700,073	\$ 383,668

Loans payable— The City’s loans payable consisted of the following:

	<u>Business- type Activities</u> <u>Water Fund</u>
Note payable to Water Infrastructure Finance Authority of Arizona with interest at 2.333% and due January 1st and July 1st of each year beginning January 1, 2015, with final payment due July 1, 2034.	\$ 3,194,951
Note payable to Water Infrastructure Finance Authority of Arizona with interest at 3.405% and due January 1st and July 1st of each year beginning January 1, 2006, with final payment due July 1, 2029.	2,116,840
	<u>\$ 5,311,791</u>

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the City’s loans payable at June 30, 2017.

Year Ending June 30	Loans Payable	
	Principal	Interest
2018	\$ 303,695	\$ 153,196
2019	312,919	143,684
2020	322,430	133,875
2021	332,239	123,760
2022	342,355	113,328
2023-27	1,874,944	398,355
2028-32	1,552,717	115,701
2033-37	270,492	7,115
Total	\$ 5,311,791	\$ 1,189,014

Capital leases—The City has acquired vehicles and equipment under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because it provides for a bargain purchase option or a transfer of ownership by the end of the lease term.

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-type Activities
Vehicles	\$ 162,572	\$ 113,624
Equipment	59,595	191,901
Less: accumulated depreciation	(21,705)	(29,915)
Carrying value	\$ 200,462	\$ 275,610

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 5 – LONG-TERM LIABILITIES – Continued

The following schedule details debt service requirements to maturity for the City’s capital leases payable at June 30, 2017:

Year Ending June 30	Governmental Activities	Business-type Activities
2018	\$ 54,950	\$ 48,407
2019	45,387	48,407
2020	45,387	48,407
2021	45,388	48,408
2022	9,608	23,435
2023-2024	-	76,233
Total minimum lease payments	200,720	293,297
Less amount representing interest	(19,453)	(36,179)
Present value of net minimum lease payments	<u>\$ 181,267</u>	<u>\$ 257,118</u>

NOTE 6 – RISK MANAGEMENT

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

NOTE 7 – CONTINGENCIES

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

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund balances – During the course of normal operations, the City’s General Fund has loaned the Active Adult Center Fund (non-major fund) \$86,194 and the Library Fund (non-major fund) \$40,606 to fund ongoing operations. Balances are not expected to be repaid within one year.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the pension plans described below. The plans are component units of the State of Arizona.

At June 30, 2017, the City reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities	Business-type Activities	Total
Net pension liabilities	\$ 15,650,753	\$ 1,076,037	\$ 16,726,790
Deferred outflows of resources	4,981,655	197,956	5,179,611
Deferred inflows of resources	1,325,257	205,637	1,530,894
Pension expense	1,820,166	5,763	1,825,929

The City reported \$2,439,135 of pension expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

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

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, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.48 percent (11.34 percent for retirement and 0.14 percent for long-term disability) of the members’ annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.48 percent (10.78 percent for retirement, 0.56 percent for health insurance premium benefit, and 0.14 percent for long-term disability) of the active members’ annual covered payroll. The City’s contributions to the pension plan for the year ended June 30, 2017,

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

were \$237,341. The City’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS	Health Benefit Supplement Fund	Long-term Disability Fund
Year ended June 30,		
2017	\$ 12,346	\$ 3,086
2016	9,904	2,377
2015	12,244	2,490

During fiscal year 2017, the City paid for ASRS pension and OPEB contributions as follows: 50.47 percent from the General Fund, 10.78 percent from the HURF Fund, 4.25 percent from the Library Fund, 2.98 percent from the Active Adult Center Fund, 19.77 percent from the Water Fund, and 11.75 percent from the Sewer Fund.

Pension Liability – At June 30, 2017, the City reported a liability of \$3,413,822 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases.

The City’s proportion of the net pension liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2016. The City’s proportion measured as of June 30, 2016, was .021150 percent, which was a decrease of .001380 percent from its proportion measured as of June 30, 2015.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2017, the City recognized pension expense for ASRS of \$18,284. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,746	\$ 234,846
Changes of assumptions or other inputs	-	180,618
Net difference between projected and actual earnings on pension plan investments	369,945	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	236,939
City contributions subsequent to the measurement date	<u>237,341</u>	<u>-</u>
Total	<u>\$ 628,032</u>	<u>\$ 652,403</u>

The \$237,341 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ (299,830)
2019	(202,144)
2020	136,529
2021	103,731
2022	-
Thereafter	-

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3 - 6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Arithmetic Expected Real Rate of Return</u>
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset class	5%	3.41%
Commodities	2%	3.84%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

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

ASRS	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
City's proportionate share of the net pension liability	\$ 4,352,883	\$ 3,413,822	\$ 2,660,901

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

B. Elected Officials Retirement Plan

Plan Description – Elected officials participate in the Elected Officials Retirement Plan (EORP), or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on PSPRS’s website at www.psprs.com.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Benefits provided – The EORP provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, and age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 months of last 120 months
Benefit percent		
Normal Retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor Benefit		
Retired Members	75% of retired member's benefit	50% of retired member's benefit
Active Members and Other Inactive Members	75% of disability retirement benefit	50% of disability retirement benefit

*With reduced benefits of 0.25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Contributions – State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2017, statute required active EORP members with an initial membership date after July 19, 2011, to contribute 13 percent of the members’ annual covered payroll and the City to contribute 23.5 percent of all active EORP members’ annual covered payroll. Also, statute required the City to contribute 17.50 percent to EORP of the annual covered payroll of elected officials who were EODCRS members, in addition to the City’s required contributions to EODCRS for these elected officials. The City’s contributions to the pension plan for the year ended June 30, 2017, were \$5,229. No OPEB contributions were required or made for the years ended June 30, 2015, 2016, and 2017.

During fiscal year 2017, the City paid 100 percent of EORP pension contributions from the General Fund.

Pension liability – At June 30, 2017, the City reported a liability for its proportionate share of the EORP’s net pension liability that reflected a reduction for the City’s proportionate share of the State’s appropriation for EORP. The amount the City recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the City were as follows:

City's proportionate share of the EORP net pension liability	\$	324,824
State's proportionate share of the EORP net pension liability associated with the City		67,068
Total	<u>\$</u>	<u>391,892</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2016, reflects a decrease in the investment rate of return actuarial assumption from 7.85 percent to 7.50 percent.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The City’s proportion of the net pension liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ actual contributions for the year ended June 30, 2016. The City’s proportion measured as of June 30, 2016, was 0.034382 percent, which was an increase of 0.003552 percent from its proportion measured as of June 30, 2015.

The collective net pension liability measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City’s proportionate share of the collective net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources – For the year ended June 30, 2017, the City recognized pension expense for EORP of \$82,466, and revenue of \$14,947 for the City’s proportionate share of the State’s appropriation to EORP and the designated court fees. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,108
Changes of assumptions or other inputs	9,525	-
Net difference between projected and actual earnings on pension plan investments	36,470	-
Changes in proportion and differences between City contributions and proportionate share of contributions	13,403	8,113
City contributions subsequent to the measurement date	5,229	-
Total	\$ 64,627	\$ 14,221

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The \$5,229 reported as deferred outflows of resources related to EORP pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ended June 30,		
2018	\$	29,019
2019		11,915
2020		2,734
2021		1,507
2022		-
Thereafter		-

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

EORP

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.25%
Inflation	4.00%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The long-term expected rate of return on EORP pension plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

EORP

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Arithmetic Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

Discount rate – At June 30, 2016, the discount rate used to measure the EORP total pension liability was 3.68 percent, which was a decrease of 1.18 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.50 percent was applied to periods of projected benefit payments through the year ended June 30, 2027. A municipal bond rate of 2.85 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 30, 2016, was applied to periods of projected benefit payments after June 30, 2027.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Sensitivity of the City’s proportionate share of the EORP net pension liability to changes in the discount rate – The following table presents the City’s proportionate share of the net pension liability calculated using the discount rate of 3.68 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.86 percent) or 1 percentage point higher (4.86 percent) than the current rate:

EORP	<u>1% Decrease (2.86%)</u>	<u>Current Discount Rate (3.86%)</u>	<u>1% Increase (4.86%)</u>
City's proportionate share of the net pension liability	\$ 378,111	\$ 324,824	\$ 280,342

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued EORP financial report.

EODCRS plan – Elected officials that are not members of EORP or ASRS participate in the EODCRS and the Elected Officials Defined Contribution Retirement System Disability Program (EODCDP). The EODCRS is a defined contribution pension plan. The EODCDP is a cost-sharing multiple-employer defined benefit disability (OPEB) plan for EODCRS members. The PSPRS Board of Trustees governs the EODCRS and EODCDP according to the provisions of A.R.S. Title 38, Chapter 5, Articles 3.1 and 3.2. Benefit terms, including contribution requirements, are established by state statute.

For the year ended June 30, 2017, active EODCRS members were required by statute to contribute 8 percent of the members’ annual covered payroll, and the City was required by statute to contribute 6 percent of active members’ annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the City’s contributions to the individual employee account and the earnings on those contributions. In addition, statute required active EODCRS members and the City to each contribute at the actuarially determined rate of 0.125 percent of the members’ annual covered payroll to the EODCDP plan. For the year ended June 30, 2017, the City recognized pension expense of \$462. The City’s OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EODCDP	<u>Disability Fund</u>	
Year ended June 30,		
2017	\$	10
2016		-
2015		-

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

C. Public Safety Personnel Retirement System

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

The PSPRS 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 GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

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:

PSPRS

	<u>Initial membership date:</u>	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited services over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired Members	80% 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 excess investment earning. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Employees Covered by Benefit Terms – At June 30, 2017, the following employees were covered by the agent pension plans’ benefit terms:

	PSPRS Police	PSPRS Fire
Inactive employees or beneficiaries currently receiving benefits	15	14
Inactive employees entitled to but not yet receiving benefits	7	1
Active employees	17	14
Total	39	29

Contributions and Annual OPEB Cost – State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS Police	PSPRS Fire
Active Members - Pension	11.65%	11.65%
City		
Pension	57.07%	51.05%
Health insurance premium	0.00%	0.00%

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

For the agent plans, the City’s contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2017, were:

Pension	PSPRS Police	PSPRS Fire
Contributions Made	\$ 1,247,498	\$ 890,023
 Health Insurance Premium Benefit		
Annual OPEB cost	18,950	13,380
Contributions made	18,950	13,380

During fiscal year 2017, the City paid for 100 percent of PSPRS pension and OPEB contributions from the General Fund.

Net Pension Liability (Asset) – At June 30, 2017, the City reported the following net pension liability:

	Net Pension Liability (Asset)
PSPRS Police	\$ 7,148,227
PSPRS Fire	5,839,917

The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments changed the basis for cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS plans.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the City’s net pension liabilities as a result of these changes is not known.

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Discount rate	7.50%
Projected salary increases	4.0%-8.0%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed Income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private Equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Pension Discount Rates – At June 30, 2016, the discount rate used to measure the PSPRS total pension liabilities was 7.50 percent, which was a decrease of 0.35 from the discount rate used as of June 30, 2015. 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 pension plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability (Asset)

PSPRS-Police	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 10,413,675	\$ 3,695,901	\$ 6,717,774
Changes for the year			
Service Cost	174,994	-	174,994
Interest on the total pension liability	801,630	-	801,630
Changes of benefit terms	(16,247)	-	(16,247)
Differences between expected and actual experience in the measurement of the pension liability	(309,546)	-	(309,546)
Changes of assumptions or other inputs	394,703	-	394,703
Contributions-employer	-	533,254	(533,254)
Contributions-employee	-	122,776	(122,776)
Net investment income	-	21,771	(21,771)
Benefit payments, including refunds of employee	(578,648)	(578,648)	-
Administrative expense	-	(3,533)	3,533
Other changes	-	(59,187)	59,187
Net changes	466,886	36,433	430,453
Balances at June 30, 2017	\$ 10,880,561	\$ 3,732,334	\$ 7,148,227

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

PSPRS-Fire	Increase (Decrease)		
	Total Pension Liability (Asset) (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 8,342,823	\$ 3,461,292	\$ 4,881,531
Changes for the year			
Service Cost	150,264	-	150,264
Interest on the total pension liability	633,583	-	633,583
Changes of benefit terms	223,209	-	223,209
Differences between expected and actual experience in the measurement of the pension liability	149,036	-	149,036
Changes of assumptions or other inputs	320,233	-	320,233
Contributions-employer	-	402,007	(402,007)
Contributions-employee	-	109,165	(109,165)
Net investment income	-	19,895	(19,895)
Benefit payments, including refunds of employee	(693,666)	(693,666)	-
Administrative expense	-	(3,263)	3,263
Other changes	-	(9,865)	9,865
Net changes	782,659	(175,727)	958,386
Balances at June 30, 2017	\$ 9,125,482	\$ 3,285,565	\$ 5,839,917

Sensitivity of the City’s Net Pension Liability to Changes in the Discount Rate – The following table presents the City’s net pension liabilities (assets) calculated using the discount rate of 7.50 percent, as well as what the City’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
PSPRS Police			
Rate	6.50%	7.50%	8.50%
Net pension liability	\$ 8,471,210	\$ 7,148,227	\$ 6,054,293
PSPRS Fire			
Rate	6.50%	7.50%	8.50%
Net pension liability	\$ 6,956,370	\$ 5,839,917	\$ 4,911,551

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

Pension Expense – For the year ended June 30, 2017, the City recognized the following pension expense:

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

	Pension Expense	
PSPRS Police	\$	928,803
PSPRS Fire		796,376

Pension Deferred Outflows/Inflows of Resources – At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS-Police	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 222,722	\$ 402,881
Changes of assumptions or other inputs	776,261	-
Net difference between projected and actual earnings on pension plan investments	304,301	73,470
City contributions subsequent to the measurement date	1,247,498	-
Total	\$ 2,550,782	\$ 476,351

PSPRS-Fire	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 138,106	\$ 317,834
Changes of assumptions or other inputs	625,783	-
Net difference between projected and actual earnings on pension plan investments	282,258	70,085
City contributions subsequent to the measurement date	890,023	-
Total	\$ 1,936,170	\$ 387,919

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

The amounts reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
2018	\$ 319,186	\$ 149,390
2019	282,769	149,389
2020	159,748	179,027
2021	65,230	136,578
2022	-	43,844
Thereafter	-	-

Agent Plan OPEB Actuarial Assumptions – The health insurance premium benefit contribution requirements for the year ended June 30, 2017, were established by the June 30, 2015, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Projections of benefits are based on (1) the plans as understood by the City and plans’ members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans’ members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial methods and assumptions used to establish the fiscal year 2017 contribution requirements are as follows:

PSPRS - OPEB Contribution Requirements

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0%
Wage growth	4.0%

Agent Plan OPEB Trend Information – Annual OPEB cost information for the health insurance premium benefit for the current and two preceding years:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Police			
2017	\$ 18,950	100%	\$ -
2016	5,615	100%	-
2015	21,567	100%	-
PSPRS Fire			
2017	\$ 13,380	100%	\$ -
2016	12,830	100%	-
2015	20,460	100%	-

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 9 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS – Continued

Agent Plan OPEB Funded Status – The health insurance premium benefit plans’ funded status as of the most recent valuation date, June 30, 2017, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS Police</u>	<u>PSPRS Fire</u>
Actuarial value of assets (a)	\$ 285,039	\$ 192,370
Actuarial accrued liability (b)	\$ 298,117	\$ 236,557
Unfunded actuarial accrued liability (funding excess) (b) - (a)	\$ 13,078	\$ 44,187
Funded ratio (a)/(b)	95.61%	81.32%
Annual covered payroll (c)	\$ 701,459	\$ 811,764
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll	1.86%	5.44%

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

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	19 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.40%
Projected salary increases	3.50%-7.50%
Wage growth	3.50%

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 10 – OPEB LIABILITY

On April 21, 2008, the City adopted a healthcare reimbursement plan for all retired employees from the City of Globe. The City agreed to reimburse employees up to \$400 each month for healthcare until they reached the age of 65. In August 2011, the City closed the plan to new entrants and all participants must have retired prior to December 31, 2011 to be eligible for the benefit. As of June 30, 2017, only two participants remain in the plan. As of June 30, 2017, the estimated accrued liability is \$26,617.

NOTE 11 – PSPRS HALL-PARKER LIABILITY

In 2011, legislators passed Senate Bill 1609, which contained several provisions meant to shore up the plans administered by PSPRS. One of those provisions was a gradual increase in member contribution rates from 7% to 11% in the elected officials' plan (EORP) and from 7.65% to 11.65% in the public safety plan (PSPRS). In August 2011, those provisions were challenged via two separate, but parallel, lawsuits—Hall for EORP and Parker for PSPRS. In November 2016, the Supreme Court upheld the lower court decision in Hall that ruled those increased member contribution rates were unconstitutional. These two lawsuits have been adjudicated separately where the Parker case was stayed (put on hold) pending the final outcome of Hall. Nevertheless, the facts and circumstances are essentially the same where both parties to Parker agreed, at the time of stay, to appropriately apply the remedies of Hall when finalized.

PSPRS and EORP members who became members of the system prior to July 20, 2011 and who paid employee contributions that exceeded 7.65% are eligible to receive a refund of those excess contributions unless they terminated and already received a refund. PSPRS has prepared a list of affected members for each employer, along with the amount of excess contributions that must be returned to them. The City has estimated that the total amount of refunds due to employees (including applicable interest) will be \$262,121.

NOTE 12 – COMMITTED FUND BALANCE/NET POSITION

In conjunction with an increase in its sanitation fees during 1991-92, the City provided that \$1 per month per customer be reserved for a recycling program for the City. This monthly allocation of sanitation fees was terminated in May, 1994, but prior funds set aside for the program remain committed for recycling purposes (\$23,017).

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 12 – COMMITTED FUND BALANCE/NET POSITION – Continued

In November 1995, the City increased its cemetery lot fees, and designated \$50 of each \$100 lot fee received be set apart "for improvements and maintenance of current cemetery facilities or the acquisition and/or development of other property for cemetery purposes."

	<u>General Fund</u>
Allocation of revenue for 16-17	\$ 8,000
Expenditures	-
Increase in committed fund balance	8,000
Committed fund balance, July 1, 2016	70,987
Committed fund balance, June 30, 2017	\$ 78,987

In conjunction with an increase in its water fees during 1992-93, the City provided that \$1 per month per customer be reserved for expenditures necessary to "secure a future water supply" or "water exploration"

	<u>Water Fund</u>
Allocation of revenue for 16-17	\$ 65,582
Expenditures	-
Increase in committed net position	65,582
Committed net position, July 1, 2016	857,137
Committed net position, June 30, 2017	\$ 922,719

NOTE 13 – LEGAL AND CONTINGENCIES

Pollution Remediation

The City is party to an environmental pollution remediation project involving land where underground gasoline storage tanks caused groundwater pollution. For the year ended June 30, 2017, no testing and engineering costs had been incurred.

Federal and State Grants

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for a reimbursement which may arise as the result of these audits is not believed to be material.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 13 – LEGAL AND CONTINGENCIES – Continued

Participation in Public Entity Risk Pool

The City is a member of the Arizona Municipal Risk Retention Pool ("Pool"). The Pool was created to formulate, develop and administer a program of self-funding for the Pool's membership, obtain lower costs for property and liability insurance coverage and develop a comprehensive loss control program. The City pays an annual premium to the Pool for its coverage. The City's agreement with the Pool provides that the Pool will be self-sustaining through member premiums and will provide, through commercial companies reinsurance contracts, individual stop loss coverage for member local governments. Insurance settlements for the City did not exceed insurance coverage for each of the past three years.

The Pool is financially solvent as of June 30, 2017. However, if the Pool should become insolvent, the City may be assessed an "additional premium" not to exceed the City's annual premium for the year.

NOTE 14 – RESTATEMENT OF BEGINNING FUND BALANCES/NET POSITION

In a prior period, the City had accrued sick leave time as a liability in the Governmental Activities, Water Fund, and Sewer Fund (Business-type Activities). Sick leave time is only paid out to employees upon retirement at 25% of the total time accrued. Due to the substantial amount of estimation and low probability of potential payout, sick leave time has been removed as a liability of the Governmental Activities in the amount of \$190,662, from the Water Fund in the amount of \$32,406, and the Sewer Fund in the amount of \$7,639. The beginning net position has been increased respectively in the Governmental Activities, Business-type Activities, Water Fund, and Sewer Fund.

In a prior period, the City had over accrued accounts payable in the General and Water Funds in the amounts of \$64,098 and \$79,368, respectively. The corresponding fund balance and net position of the General Fund, Water Fund, Governmental Activities, and the Business-type Activities have been increased accordingly.

In the prior year, the City did not accrue/recognize city sales tax revenue of \$87,526. The beginning fund balance of the General Fund and the beginning net position of the Governmental Activities have been increased accordingly.

In the prior year, the City recognized too much accrued interest of \$101,382 on its WIFA debt. In addition, the City recognized a WIFA principal payment of \$192,905 in error. The total restatement of beginning net position is a decrease of \$101,382.

CITY OF GLOBE, ARIZONA
Notes to Financial Statements
June 30, 2017

NOTE 14 – RESTATEMENT OF BEGINNING FUND BALANCES/NET POSITION – Continued

It was found that at the beginning of the fiscal year, the City had a deposit amount on hand with its health insurance provider in the amount of \$724,433 that was not recognized previously. The effect of the deposit is an increase of \$724,433 to the beginning fund balance of the General Fund as well as an increase in the beginning net position of the Governmental Activities.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Fund balance/net position as of July 1, 2017	\$ (3,693,740)	\$ 9,196,716	\$ 4,633,816	\$ 5,006,231	\$ 4,190,485
Sick leave	190,662	40,045	-	32,406	7,639
Accounts payable	64,098	79,368	64,098	79,368	-
City sales tax revenue	87,526	-	87,526	-	-
Accrued interest	-	(101,382)	-	(101,382)	-
Health insurance deposit	724,433	-	724,433	-	-
Fund balance/net position as of July 1, 2017, restated	<u>\$ (2,627,021)</u>	<u>\$ 9,214,747</u>	<u>\$ 5,509,873</u>	<u>\$ 5,016,623</u>	<u>\$ 4,198,124</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 4,830,010	\$ 4,830,010	\$ 4,825,963	\$ (4,047)
Intergovernmental	2,068,559	2,068,559	2,047,605	(20,954)
Charges for services	991,725	991,725	930,758	(60,967)
Licenses, permits and fees	867,600	867,600	557,677	(309,923)
Franchise fees	200,000	200,000	231,803	31,803
Other revenue	49,000	49,000	116,060	67,060
Fines and forfeitures	141,000	141,000	178,567	37,567
Interest	-	-	32,561	32,561
Total revenues	<u>9,147,894</u>	<u>9,147,894</u>	<u>8,920,994</u>	<u>(226,900)</u>
Expenditures				
Current				
General government	4,534,397	4,534,397	1,456,785	3,077,612
Public safety	6,422,521	6,422,521	5,924,441	498,080
Public works and streets	1,112,887	1,112,887	1,023,542	89,345
Parks and recreation	192,661	192,661	185,855	6,806
Sanitation	601,712	601,712	601,712	-
Debt Service				
Principal	24,850	24,850	24,850	-
Interest	1,367	1,367	1,367	-
Capital outlay	492,714	492,714	492,714	-
Total expenditures	<u>13,383,109</u>	<u>13,383,109</u>	<u>9,711,266</u>	<u>3,671,843</u>
Excess (deficiency) of revenues over (under) expenditures	(4,235,215)	(4,235,215)	(790,272)	3,444,943
Other financing sources (uses)				
Capital lease agreement	-	-	162,572	162,572
Net change in fund balances	(4,235,215)	(4,235,215)	(627,700)	3,607,515
Fund balances, beginning of year, restated	<u>5,509,873</u>	<u>5,509,873</u>	<u>5,509,873</u>	<u>-</u>
Fund balances, end of year	<u>\$ 1,274,658</u>	<u>\$ 1,274,658</u>	<u>\$ 4,882,173</u>	<u>\$ 3,607,515</u>

See accompanying notes to budgetary comparison schedule.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Budgetary Comparison Schedule
Transportation Excise Tax Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 465,057	\$ 465,057	\$ 437,193	\$ (27,864)
Expenditures				
Current				
Public works and streets	170,951	170,951	-	170,951
Capital outlay	515,049	515,049	515,049	-
Total expenditures	<u>686,000</u>	<u>686,000</u>	<u>515,049</u>	<u>170,951</u>
 Net change in fund balances	 (220,943)	 (220,943)	 (77,856)	 143,087
Fund balances, beginning of year	<u>314,127</u>	<u>314,127</u>	<u>314,127</u>	<u>-</u>
Fund balances, end of year	<u>\$ 93,184</u>	<u>\$ 93,184</u>	<u>\$ 236,271</u>	<u>\$ 143,087</u>

See accompanying notes to budgetary comparison schedule.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2017

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, 2017, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) in the Administration and Sanitation departments.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of the City's Proportionate
Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2006
City's proportion of the net pension liability	0.021150%	0.022530%	0.022481%	Information not available
City's proportionate share of the net pension liability	\$ 3,413,822	\$ 3,509,498	\$ 3,511,274	
City's covered-employee payroll	\$ 1,980,756	\$ 2,075,216	\$ 2,139,121	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	172.35%	169.11%	164.15%	
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%	

Elected Officials Retirement Plan

	Reporting Fiscal Year (Measurement Date)			
	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2006
City's proportion of the net pension liability	0.034382%	0.030830%	0.038340%	Information not available
City's proportionate share of the net pension liability	\$ 324,824	\$ 240,920	\$ 257,089	
State's proportionate share of the net pension liability associated with the City	67,068	75,109	78,826	
Total	<u>\$ 391,892</u>	<u>\$ 316,029</u>	<u>\$ 335,915</u>	
City's covered-employee payroll	\$ 21,100	\$ 33,054	\$ 27,600	
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1539.45%	728.87%	931.48%	
Plan fiduciary net position as a percentage of the total pension liability	23.42%	28.32%	31.91%	

See accompanying notes to pension plan schedules.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of Changes in the City's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans – PSPRS Police
June 30, 2017

	Reporting Fiscal Year (Measurement Date)			2014 through 2007
	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability				Information not available
Service cost	\$ 174,994	\$ 171,814	\$ 202,049	
Interest on the total pension liability	801,630	743,307	635,715	
Changes of benefit terms	(16,247)	-	264,241	
Differences between expected and actual experience in the measurement of the pension liability	(309,546)	387,628	(429,362)	
Changes of assumptions or other inputs	394,703	-	1,250,618	
Benefit payments, including refunds of employee contributions	(578,648)	(544,101)	(530,972)	
Net change in total pension liability	466,886	758,648	1,392,289	
Total pension liability - beginning	10,413,675	9,655,027	8,262,738	
Total pension liability - ending (a)	<u>\$ 10,880,561</u>	<u>\$ 10,413,675</u>	<u>\$ 9,655,027</u>	
Plan fiduciary net position				
Contributions - employer	\$ 533,254	\$ 349,032	\$ 282,220	
Contributions - employee	122,776	120,405	108,788	
Net investment income	21,771	132,063	445,624	
Benefit payments, including refunds of employee contributions	(578,648)	(544,101)	(530,972)	
Administrative expense	(3,533)	(3,595)	-	
Other changes	(59,187)	55,462	(251,795)	
Net change in plan fiduciary net position	36,433	109,266	53,865	
Plan fiduciary net position - beginning	3,695,901	3,586,635	3,532,770	
Plan fiduciary net position - ending (b)	<u>\$ 3,732,334</u>	<u>\$ 3,695,901</u>	<u>\$ 3,586,635</u>	
City's net pension liability (asset) - ending (a) - (b)	<u>\$ 7,148,227</u>	<u>\$ 6,717,774</u>	<u>\$ 6,068,392</u>	
Plan fiduciary net position as a percentage of the total pension liability	34.30%	35.49%	37.15%	
Covered-employee payroll	\$ 946,935	\$ 942,820	\$ 910,118	
City's net pension liability (asset) as a percentage of covered-employee payroll	754.88%	712.52%	666.77%	

See accompanying notes to pension plan schedules.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of Changes in the City's
Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans – PSPRS Fire
June 30, 2017

	Reporting Fiscal Year (Measurement Date)			2014 through 2007
	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability				Information not available
Service cost	\$ 150,264	\$ 156,604	\$ 170,156	
Interest on the total pension liability	633,583	614,602	568,739	
Changes of benefit terms	223,209	-	157,833	
Differences between expected and actual experience in the measurement of the pension liability	149,036	25,042	(673,178)	
Changes of assumptions or other inputs	320,233	-	770,143	
Benefit payments, including refunds of employee contributions	(693,666)	(408,889)	(396,467)	
Net change in total pension liability	782,659	387,359	597,226	
Total pension liability - beginning	8,342,823	7,955,464	7,358,238	
Total pension liability - ending (a)	<u>\$ 9,125,482</u>	<u>\$ 8,342,823</u>	<u>\$ 7,955,464</u>	
Plan fiduciary net position				
Contributions - employer	\$ 402,007	\$ 308,280	\$ 302,193	
Contributions - employee	109,165	94,304	90,601	
Net investment income	19,895	125,014	425,082	
Benefit payments, including refunds of employee contributions	(693,666)	(408,889)	(396,467)	
Administrative expense	(3,263)	(3,433)	-	
Other changes	(9,865)	(194,808)	(130,977)	
Net change in plan fiduciary net position	(175,727)	(79,532)	290,432	
Plan fiduciary net position - beginning	3,461,292	3,540,824	3,250,392	
Plan fiduciary net position - ending (b)	<u>\$ 3,285,565</u>	<u>\$ 3,461,292</u>	<u>\$ 3,540,824</u>	
City's net pension liability (asset) - ending (a) - (b)	<u>\$ 5,839,917</u>	<u>\$ 4,881,531</u>	<u>\$ 4,414,640</u>	
Plan fiduciary net position as a percentage of the total pension liability	36.00%	41.49%	44.51%	
Covered-employee payroll	\$ 810,047	\$ 803,920	\$ 823,923	
City's net pension liability (asset) as a percentage of covered-employee payroll	720.94%	607.22%	535.81%	

See accompanying notes to pension plan schedules.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of City Pension Contributions
June 30, 2017

Arizona State Retirement System

	Reporting Fiscal Year				2013 through 2006
	2017	2016	2015	2014	
Statutorily required contribution	\$ 237,341	\$ 214,912	\$ 225,991	\$ 228,886	Information not available
City's contributions in relation to the statutorily required contribution	<u>(237,341)</u>	<u>(214,912)</u>	<u>(225,991)</u>	<u>(228,886)</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 2,201,679</u>	<u>\$ 1,980,756</u>	<u>\$ 2,075,216</u>	<u>\$ 2,139,121</u>	
City's contributions as a percentage of covered- employee payroll	10.78%	10.85%	10.89%	10.70%	

PSPRS-Police

	Reporting Fiscal Year				2013 through 2006
	2017	2016	2015	2014	
Actuarially determined contribution	\$ 521,152	\$ 533,254	\$ 349,032	\$ 282,220	Information not available
City's contributions in relation to the actuarially determined contribution	<u>(1,247,498)</u>	<u>(533,254)</u>	<u>(349,032)</u>	<u>(282,220)</u>	
City's contribution deficiency (excess)	<u>\$ (726,346)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 913,181</u>	<u>\$ 946,935</u>	<u>\$ 942,820</u>	<u>\$ 910,118</u>	
City's contributions as a percentage of covered- employee payroll	136.61%	56.31%	37.02%	31.01%	

See accompanying notes to pension plan schedules.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of City Pension Contributions
June 30, 2017

PSPRS-Fire

	Reporting Fiscal Year				2013 through 2006
	2017	2016	2015	2014	
Actuarially determined contribution	\$ 406,539	\$ 402,007	\$ 308,280	\$ 302,193	Information not available
City's contributions in relation to the actuarially determined contribution	<u>(890,023)</u>	<u>(402,007)</u>	<u>(308,280)</u>	<u>(302,193)</u>	
City's contribution deficiency (excess)	<u>\$ (483,484)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 796,354</u>	<u>\$ 810,047</u>	<u>\$ 803,920</u>	<u>\$ 823,923</u>	
City's contributions as a percentage of covered- employee payroll	111.76%	49.63%	38.35%	36.68%	

Elected Officials Retirement Plan

	Reporting Fiscal Year				2013 through 2006
	2017	2016	2015	2014	
Statutorily required contribution	\$ 5,229	\$ 6,486	\$ 6,486	\$ 8,169	Information not available
City's contributions in relation to the statutorily required contribution	<u>(5,229)</u>	<u>(6,486)</u>	<u>(6,486)</u>	<u>(8,169)</u>	
City's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
City's covered-employee payroll	<u>\$ 21,100</u>	<u>\$ 33,054</u>	<u>\$ 27,600</u>	<u>\$ 34,762</u>	
City's contributions as a percentage of covered- employee payroll	24.78%	19.62%	23.50%	23.50%	

See accompanying notes to pension plan schedules.

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Notes to Pension Plan Schedules
June 30, 2017

NOTE 1 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2015 actuarial valuation	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In 2014 actuarial valuation, projected salary increases were decreased from 4.5% - 8.5% to 4.0% - 8.0%. In 2013 actuarial valuation, projected salary increases were decreased from 5.0% - 9.0% to 4.5% - 8.5%.
Wage growth	In 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

Health Insurance Premium Benefit - PSPRS Police

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/17	\$ 285,039	\$ 298,117	\$ 13,078	95.6 %	\$ 701,459	1.86 %
06/30/16	280,598	293,613	13,015	95.6	946,935	1.37
06/30/15	277,170	299,796	22,626	92.5	942,820	2.40

Health Insurance Premium Benefit - PSPRS Fire

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding Liability (Excess) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
06/30/17	\$ 192,370	\$ 236,557	\$ 44,187	81.3 %	\$ 811,764	5.44 %
06/30/16	183,874	253,029	69,155	72.7	810,047	8.54
06/30/15	168,187	268,488	100,301	62.6	803,920	12.48

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

CITY OF GLOBE, ARIZONA
Required Supplementary Information
Notes to Schedule of Agent OPEB Plans' Funding Progress
June 30, 2017

NOTE 1 – FACTORS THAT AFFECT THE IDENTIFICATION OF TRENDS

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
HURF Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 769,033	\$ 769,033	\$ 784,209	\$ 15,176
Expenditures				
Current				
Public works and streets	705,007	705,007	702,945	2,062
Capital outlay	64,026	64,026	64,026	-
Total expenditures	<u>769,033</u>	<u>769,033</u>	<u>766,971</u>	<u>2,062</u>
Net change in fund balances	-	-	17,238	17,238
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,238</u>	<u>\$ 17,238</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
Grants Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 2,000,000	\$ 2,000,000	\$ 509,422	\$ (1,490,578)
Expenditures				
Current				
Public safety	1,581,020	1,581,020	9,546	1,571,474
Parks and recreation	25,103	25,103	25,103	-
Capital outlay	393,877	393,877	393,877	-
Total expenditures	<u>2,000,000</u>	<u>2,000,000</u>	<u>428,526</u>	<u>1,571,474</u>
 Net change in fund balances	 -	 -	 80,896	 80,896
 Fund balances, beginning of year	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund balances, end of year	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 80,896</u>	 <u>\$ 80,896</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
Active Adult Center Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 135,612	\$ 135,612	\$ 100,849	\$ (34,763)
Other revenue	-	-	20,291	20,291
Total revenues	<u>135,612</u>	<u>135,612</u>	<u>121,140</u>	<u>(14,472)</u>
Expenditures				
Current				
Welfare	<u>205,639</u>	<u>205,639</u>	<u>182,346</u>	<u>23,293</u>
Net change in fund balances	<u>(70,027)</u>	<u>(70,027)</u>	<u>(61,206)</u>	<u>8,821</u>
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ (70,027)</u>	<u>\$ (70,027)</u>	<u>\$ (61,206)</u>	<u>\$ 8,821</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
Library Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 125,760	\$ 125,760	\$ 113,600	\$ (12,160)
Other revenue	-	-	6,206	6,206
Total revenues	<u>125,760</u>	<u>125,760</u>	<u>119,806</u>	<u>(5,954)</u>
Expenditures				
Current				
Parks and recreation	<u>185,877</u>	<u>185,877</u>	<u>164,484</u>	<u>21,393</u>
Net change in fund balances	(60,117)	(60,117)	(44,678)	15,439
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ (60,117)</u>	<u>\$ (60,117)</u>	<u>\$ (44,678)</u>	<u>\$ 15,439</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
Water Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 3,957,013	\$ 3,957,013	\$ 2,268,292	\$ (1,688,721)
Miscellaneous	-	-	81,711	81,711
Total operating revenues	<u>3,957,013</u>	<u>3,957,013</u>	<u>2,350,003</u>	<u>(1,607,010)</u>
Operating expenses				
Depreciation	-	-	444,311	(444,311)
Salaries and wages	482,401	482,401	393,202	89,199
Utilities	330,119	330,119	321,771	8,348
Employee benefits	300,058	300,058	240,407	59,651
Professional services	137,250	137,250	91,860	45,390
Materials and supplies	81,400	81,400	60,508	20,892
Repairs and maintenance	2,882,538	2,882,538	248,439	2,634,099
Insurance	111,560	111,560	56,945	54,615
Other	7,250	7,250	15,434	(8,184)
Total operating expenses	<u>4,332,576</u>	<u>4,332,576</u>	<u>1,872,877</u>	<u>2,459,699</u>
Operating income (loss)	<u>(375,563)</u>	<u>(375,563)</u>	<u>477,126</u>	<u>(4,066,709)</u>
Nonoperating revenues (expenses)				
Interest expense	<u>(410,719)</u>	<u>(410,719)</u>	<u>(139,187)</u>	<u>271,532</u>
Income (loss) before contributions, gains, losses, and transfers	<u>(786,282)</u>	<u>(786,282)</u>	<u>337,939</u>	<u>(3,795,177)</u>
Capital contribution	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>3,000,000</u>
Increase (decrease) in net position	<u>(786,282)</u>	<u>(786,282)</u>	<u>3,337,939</u>	<u>(795,177)</u>
Total net position, beginning of year, restated	<u>5,016,623</u>	<u>5,016,623</u>	<u>5,016,623</u>	<u>-</u>
Total net position, end of year	<u>\$ 4,230,341</u>	<u>\$ 4,230,341</u>	<u>\$ 8,354,562</u>	<u>\$ (795,177)</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Budgetary Comparison Schedule
Sewer Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Operating revenues				
Charges for services	\$ 1,093,498	\$ 1,093,498	\$ 1,086,042	\$ (7,456)
Miscellaneous	-	-	5,220	5,220
Total operating revenues	<u>1,093,498</u>	<u>1,093,498</u>	<u>1,091,262</u>	<u>(2,236)</u>
Operating expenses				
Depreciation	-	-	265,833	(265,833)
Salaries and wages	194,610	194,610	249,711	(55,101)
Utilities	125,000	125,000	85,828	39,172
Employee benefits	122,364	122,364	159,109	(36,745)
Professional services	115,000	115,000	111,110	3,890
Materials and supplies	68,700	68,700	47,258	21,442
Repairs and maintenance	254,000	254,000	79,001	174,999
Insurance	31,992	31,992	18,377	13,615
Other	39,250	39,250	39,507	(257)
Total operating expenses	<u>950,916</u>	<u>950,916</u>	<u>1,055,734</u>	<u>(104,818)</u>
Operating income (loss)	142,582	142,582	35,528	102,582
Nonoperating revenues (expenses)				
Interest expense	<u>(105,738)</u>	<u>(105,738)</u>	<u>-</u>	<u>105,738</u>
Increase (decrease) in net position	36,844	36,844	35,528	208,320
Total net position, beginning of year, restated	<u>4,198,124</u>	<u>4,198,124</u>	<u>4,198,124</u>	<u>-</u>
Total net position, end of year	<u>\$ 4,234,968</u>	<u>\$ 4,234,968</u>	<u>\$ 4,233,652</u>	<u>\$ 208,320</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Non-Major Governmental Funds
Combining Balance Sheet
June 30, 2017

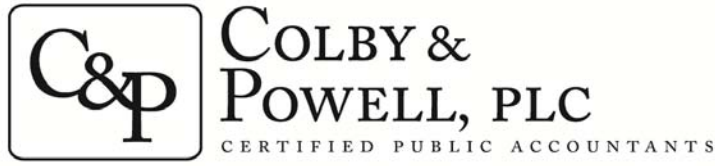
	HURF Fund	Grants Fund	Active Adult Center Fund	Library Fund	Other Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 39,799	\$ 43,157	\$ -	\$ -	\$ 82,956
Due from other governments	71,572	37,739	29,238	-	138,549
Total assets	<u>111,371</u>	<u>80,896</u>	<u>29,238</u>	<u>-</u>	<u>221,505</u>
LIABILITIES					
Accounts payable	85,460	-	1,558	399	87,417
Accrued expenses	8,673	-	2,692	3,673	15,038
Due to other funds	-	-	86,194	40,606	126,800
Total liabilities	<u>94,133</u>	<u>-</u>	<u>90,444</u>	<u>44,678</u>	<u>229,255</u>
FUND BALANCES					
Restricted for:					
Highways and streets	17,238	-	-	-	17,238
Unassigned	-	80,896	(61,206)	(44,678)	(24,988)
Total fund balances	<u>17,238</u>	<u>80,896</u>	<u>(61,206)</u>	<u>(44,678)</u>	<u>(7,750)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 111,371</u>	<u>\$ 80,896</u>	<u>\$ 29,238</u>	<u>\$ -</u>	<u>\$ 221,505</u>

CITY OF GLOBE, ARIZONA
Other Supplementary Information
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2017

	HURF Fund	Grants Fund	Active Adult Center Fund	Library Fund	Other Governmental Funds
Revenues					
Intergovernmental	\$ 784,209	\$ 509,422	\$ 100,849	\$ 113,600	\$ 1,508,080
Other revenue	-	-	20,291	6,206	26,497
Total revenues	<u>784,209</u>	<u>509,422</u>	<u>121,140</u>	<u>119,806</u>	<u>1,534,577</u>
Expenditures					
Current					
Public safety	-	9,546	-	-	9,546
Public works and streets	702,945	-	-	-	702,945
Parks and recreation	-	25,103	-	164,484	189,587
Welfare	-	-	182,346	-	182,346
Capital outlay	64,026	393,877	-	-	457,903
Total expenditures	<u>766,971</u>	<u>428,526</u>	<u>182,346</u>	<u>164,484</u>	<u>1,542,327</u>
Net change in fund balances	17,238	80,896	(61,206)	(44,678)	(7,750)
Fund balances, beginning of year	-	-	-	-	-
Fund balances, end of year	<u>\$ 17,238</u>	<u>\$ 80,896</u>	<u>\$ (61,206)</u>	<u>\$ (44,678)</u>	<u>\$ (7,750)</u>



REPORTS AND SCHEDULES REQUIRED BY
GOVERNMENTAL AUDITING STANDARDS AND THE
UNIFORM GUIDANCE



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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 Globe, 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, each major fund, and the aggregate remaining fund information of the City of Globe, Arizona, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Globe, Arizona's basic financial statements and have issued our report thereon dated May 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Globe, 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 Globe, Arizona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Globe, Arizona's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. Findings reference **2016-001** and **2016-002**.

Compliance and Other Matters

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

City of Globe, Arizona's Response to Findings

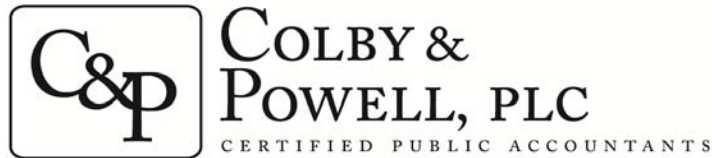
City of Globe, Arizona's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Globe, Arizona's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express 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.



May 31, 2018



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Globe, Arizona

Report on Compliance for Each Major Federal Program

We have audited the City of Globe, Arizona's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Globe, Arizona's major federal programs for the year ended June 30, 2017. City of Globe, Arizona's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Globe, Arizona's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Globe, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Globe, Arizona's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Globe, Arizona, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.


Report on Internal Control over Compliance

Management of the City of Globe, Arizona, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Globe, Arizona's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Globe, Arizona's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



May 31, 2018

CITY OF GLOBE, ARIZONA
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass through Grantor's Number	Disbursements/ Expenditures
<u>U.S. Environmental Protection Agency</u>			
Passed through Water Infrastructure Finance Authority of Arizona:			
Drinking Water State Revolving Fund Cluster:			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	920249-14	\$ 1,241,992
<u>U.S. Department of Health and Human Services</u>			
Passed through Pinal-Gila Council for Senior Citizens:			
Aging Cluster:			
Special Programs for the Aging_ Title III, Part B	93.044		6,386
Special Programs for the Aging_ Title III, Part C	93.045		51,423
Nutrition Services Incentive Program	93.053		10,824
Total Aging Cluster			68,633
Social Services Block Grant	93.667		5,874
Total U.S. Department Health and Human Services			74,507
<u>U.S. Department of Transportation</u>			
Passed through AZ Governor's Office of Highway Safety:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	2017-PT-023 V20	1,583
State and Community Highway Safety	20.600	2016-AL-011	838
State and Community Highway Safety	20.600	2016-PT-063	5,349
National Priority Safety Programs	20.616	2017-405D-012	1,775
Total U.S. Department of Transportation			9,545
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Arizona Department of Housing:			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	114-17	393,877
Total Federal Assistance			\$ 1,719,921

The accompanying notes are an integral part of this schedule.

CITY OF GLOBE, ARIZONA
Notes to Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the City of Globe, Arizona under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Globe, Arizona, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Globe, Arizona.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual/accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Globe, Arizona has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

CITY OF GLOBE, ARIZONA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> Yes	<u> X </u> No

Identification of major federal programs:

CFDA

<u>Number</u>	<u>Name of Federal Program</u>
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	<u>Drinking Water State Revolving Fund Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No

Financial Statement Findings

Yes

Federal Award Findings and Questioned Costs

None

CITY OF GLOBE, ARIZONA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings

2016-001 - General Ledger Maintenance and Reconciliation - (Material Weakness)

Criteria: To help ensure that internal and external financial reports are accurate, timely, and in accordance with generally accepted accounting principles, general ledger accounts should be reconciled on a monthly basis and supporting schedules should be prepared and reconciled with these general ledger accounts.

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

Cause and Effect: As a result of turnover in accounting personnel, and a reduced accounting staff, certain accounts had not been reconciled for year end.

Auditors' Recommendations: 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.

Management's Response: To improve the City's reconciliation processes, the City will:

- Evaluate and implement closing procedures that will establish clear timelines and deadlines for recording transactions and reconciliations to the general ledger and sub ledgers.
- Maintain monthly reconciliations in order to maintain accuracy and attention to detail.
- Review all audit entries to ensure that required adjustments are made before the next audit.

2016-002 - Segregation of Duties - (Material Weakness)

Criteria: To help ensure the accuracy of financial records and to help reduce the risk of misappropriation of assets, duties should be segregated whereby the individual with custody of assets should not be the same individual responsible for the record keeping and authorization of those assets.

Condition: The City does not have adequate policies and procedures in place to ensure that duties are segregated for the cash disbursements, payroll and cash receipts process. One individual is responsible for authorizing vendors, has access to blank check stock, the general ledger, and performs the bank reconciliation. Another individual is responsible for entering the payroll information for which there is not adequate oversight.

Cause and Effect: The City has not evaluated and segregated the duties for which employees are responsible for custody of assets and their relationship to the authorizing and record keeping of such assets. The effect is an increase in the risk that assets may be misappropriated and not discovered in a reasonable period of time.

CITY OF GLOBE, ARIZONA
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings - *Continued*

Auditors' Recommendations: We recommend that management perform an evaluation of employee duties to determine procedures that will segregate duties in an effort to reduce the risk of misappropriations of assets.

Management's Response: To improve the City's segregation of duties, the City will:

- Take measures to evaluate staffing in the Finance Department to address internal control issues and eliminate the concentration of duties that would allow personnel to misappropriate assets.
- Conduct a risk assessment on all key functions, which will be included in the Finance Procedures to be created. Staff will research examples of best practices and procedures to identify risks and determine the risk level.
- Based on the identified risks, staff will implement procedures to appropriately segregate duties as necessary.
- Adopt administrative policies and procedures Staff believes this task is of such importance that it needs to be researched thoroughly to put into place best practices.

Section III – Federal Award Findings and Questioned Costs

None

CITY OF GLOBE, ARIZONA
Summary Schedule of Prior Year Findings
Year Ended June 30, 2017

Section IV – Prior Year Federal Award Findings and Questioned Costs

2016-001 - General Ledger Maintenance and Reconciliation

Finding description:

Significant audit adjustments were necessary in order to present the financial statements in accordance with generally accepted accounting principles. These entries were proposed, accepted, and recorded by the City in the financial statements.

Current year status:

Partially Implemented – The City finance department has reduced the number of audit adjustments significantly. This is repeated as current year finding 2016-001.

2016-002 - Segregation of Duties

Finding description:

The City does not have adequate policies and procedures in place to ensure that duties are segregated for the cash disbursements, payroll and cash receipts process. One individual is responsible for authorizing vendors, has access to blank check stock, the general ledger, and performs the bank reconciliation. Another individual is responsible for entering the payroll information for which there is not adequate oversight.

Current year status:

Not implemented – This is repeated as current year finding 2016-002.

2016-003 - Capital Assets

Finding description:

The capital assets reported in the trial balance were not supported by a reconciled and complete capital asset registry or inventory. The asset records that are available are missing balances of fully depreciated infrastructure and equipment items that were written off by mistake in prior years.

Current year status:

Implemented – This is not a current year finding.

CITY OF GLOBE, ARIZONA
Summary Schedule of Prior Year Findings
Year Ended June 30, 2017

2016-004 - General Ledger Maintenance and Reconciliation (Federal Award)

Finding description:

Significant audit adjustments were necessary in order to present the financial statements in accordance with generally accepted accounting principles. These entries were proposed, accepted, and recorded by the City in the financial statements.

Current year status:

Implemented – This is not a current year finding as it relates to Federal Awards.

2016-005 - Segregation of Duties (Federal Award)

Finding description:

The City does not have adequate policies and procedures in place to ensure that duties are segregated for the cash disbursements, payroll and cash receipts process. One individual is responsible for authorizing vendors, has access to blank check stock, the general ledger, and performs the bank reconciliation. Another individual is responsible for entering the payroll information for which there is not adequate oversight.

Current year status:

Implemented – This is not a current year finding as it relates to Federal Awards.

2016-006 - Capital Assets (Federal Award)

Finding description:

The capital assets reported in the trial balance were not supported by a reconciled and complete capital asset registry or inventory. The asset records that are available are missing balances of fully depreciated infrastructure and equipment items that were written off by mistake in prior years.

Current year status:

Implemented – This is not a current year finding as it relates to Federal Awards.

2016-007 - Reporting (Federal Award)

Finding description:

The City does not have adequate procedures in place to ensure that the financial reports requesting reimbursement for expenditures and Federal reporting period-specific expenditures were independently reviewed for accuracy and approved prior to submitting them to WIFA. As a result, three of four reimbursement requests and all four of the Federal Financial 425 reports did not agree with the expenditures reported in the general ledger for the period presented.

Current year status:

Implemented – This is not a current year finding as it relates to Federal Awards.