

City of Globe, Arizona

**Financial Statements and Report on Schedule of Expenditures of Federal Awards
and Reports Required by Government Auditing Standards and the Uniform Guidance**

For the Year Ended June 30, 2016

Table of Contents
City of Globe, Arizona

| | |
|---|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | |
| Statement of Net Position | 13 |
| Statement of Activities | 14 |
| Balance Sheet – Governmental Funds | 15 |
| Reconciliation of Balance Sheet – Governmental Funds to the Statement of Net Position | 16 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 17 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | 18 |
| Statement of Fund Net Position – Proprietary Funds | 19 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds | 20 |
| Statement of Cash Flows – Proprietary Funds | 21 |
| Statement of Fiduciary Net Position – Fiduciary Fund | 22 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Fund | 23 |
| Notes to the Financial Statements | 24 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedules: | |
| General Fund | 53 |
| Highway Users Fund | 54 |
| Grants Fund | 55 |
| Pension Schedules: | |
| Schedule of the City's Proportionate Share of Net Pension Liability – Cost Sharing Plans | 56 |
| Schedule of the Changes in the City's Net Pension Liability (Asset) and Related Ratios – Agent Pension Plans | 57 |
| Schedule of City Pension Contributions | 59 |
| Notes to Pension Plan Schedules | 60 |
| Schedule of Agent OPEB Plan's Funding Progress and Related Notes | 61 |

Table of Contents
City of Globe, Arizona

Other Supplemental Information:

Budgetary Comparison Schedules-Nonmajor and Enterprise Funds:

| | |
|--------------------------------|----|
| Transportation Excise Tax Fund | 62 |
| Active Adult Center Fund | 63 |
| Library Fund | 64 |
| Water Utility Fund | 65 |
| Sewer Utility Fund | 66 |

Combining Nonmajor Governmental Fund Financial Statements:

| | |
|---|----|
| Combining Balance Sheet | 67 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 68 |

Single Audit Section:

| | |
|---|----|
| Independent Auditor's Report on Internal Control over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 69 |
| Independent Auditor's Report on Compliance for Each Major Program And on Internal Control Over Compliance Required by the Uniform Guidance | 71 |
| Schedule of Expenditures of Federal Awards | 74 |
| Notes to the Schedule of Expenditures of Federal Awards | 75 |
| Schedule of Findings and Questioned Costs | 76 |
| Corrective Action Plan | 84 |
| Summary Schedule of Prior Audit Findings | 85 |

Independent Auditor's Report

To the City Council
City of Globe, Arizona

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Globe, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, 2016, 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, pension related disclosures and budgetary comparison schedules on pages 4-12 and 53-61 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.

Supplementary information-schedule of expenditures of federal awards

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 schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Supplementary and 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 budgetary comparison schedules for nonmajor funds and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules for nonmajor funds and combining nonmajor fund financial statements 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 budgetary comparison schedules for nonmajor

funds and combining nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies

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 the City received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the City received solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, (the Auditor General of the State of Arizona,) the City Council, management, and other responsible parties within the City and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2016, 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 City of Globe, Arizona's internal control over financial reporting and compliance.

Smsola + Butler, CPAs, PLLC

Gilbert, Arizona
February 24, 2016

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

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, 2016. 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 \$5,502,976(net position) for the fiscal year reported.
- Total net position is comprised of the following:
 - (1) Capital assets net of related debt of \$10,059,702 includes property and equipment, net of accumulated depreciation and reduced by outstanding debt related to the purchase of capital assets.
 - (2) Net position of \$871,979 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 (\$5,428,705) at fiscal year-end. This amount decreased by \$85,752 from the prior year. The primary cause of the deficit net asset is due to the \$15,349,723 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 \$4,947,943. This compares to the prior year total ending fund balance, as restated, of \$4,814,296 reflecting an increase of \$133,647 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 City-wide statement of financial position presenting information that includes all of the City's assets and 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.

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

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.

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.

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

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, 2016:

SUMMARY OF NET POSITION

| | Governmental Activities | Business- type Activities | Totals | Totals (as restated) | Amount Change |
|---|------------------------------------|--------------------------------------|---------------------|---------------------------------|--------------------------|
| | 2016 | 2016 | 2016 | 2015 | |
| Current and other assets | \$ 5,641,914 | \$ 5,431,903 | \$ 11,073,817 | \$ 11,318,485 | \$ (244,668) |
| Capital assets | 4,485,001 | 12,789,890 | 17,274,891 | 14,487,698 | 2,787,193 |
| Total Assets | 10,126,915 | 18,221,793 | 28,348,708 | 25,806,183 | 2,542,525 |
| Deferred Outflow s of Resources | 2,971,536 | 97,824 | 3,069,360 | 2,739,066 | 330,294 |
| Current liabilities | 646,272 | 1,003,922 | 1,650,194 | 1,622,224 | 27,970 |
| Non-current liabilities | 14,893,311 | 7,986,071 | 22,879,382 | 18,951,673 | 3,927,709 |
| Total Liabilities | 15,539,583 | 8,989,993 | 24,529,576 | 20,573,897 | 3,955,679 |
| Deferred Inflow s of resources | 1,252,608 | 132,908 | 1,385,516 | 1,844,004 | (458,488) |
| Invested in capital assets, net of debt | 4,441,456 | 5,618,246 | 10,059,702 | 10,058,505 | 1,197 |
| Restricted | 314,127 | 557,852 | 871,979 | 1,411,796 | (539,817) |
| Unrestricted | (8,449,323) | 3,020,618 | (5,428,705) | (5,342,953) | (85,752) |
| Total Net Position | \$ (3,693,740) | \$ 9,196,716 | \$ 5,502,976 | \$ 6,127,348 | \$ (624,372) |

The City reported a negative net position for governmental activities and a positive balance in net position for business-type activities. Net position decreased by \$661,001 for governmental activities and increased by \$36,629 for business-type activities.

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

The following table provides a summary of the City's changes in net position for the year ended June 30, 2016.

SUMMARY OF CHANGES IN NET POSITION

| | Governmental Activities | Business- type Activities | Totals | Totals (as restated) | Amount Change |
|--------------------------------------|------------------------------------|--------------------------------------|---------------------|---------------------------------|--------------------------|
| | 2016 | 2016 | 2016 | 2015 | |
| Revenues: | | | | | |
| Program revenues: | | | | | |
| Charges for services | \$ 1,086,425 | \$ 3,250,008 | \$ 4,336,433 | \$ 4,057,370 | \$ 279,063 |
| Operating grants and contributions | 1,548,150 | - | 1,548,150 | 1,322,869 | 225,281 |
| Capital grants and contributions | 121,023 | - | 121,023 | 615,327 | (494,304) |
| General revenues: | | | | | |
| City sales tax | 3,637,666 | - | 3,637,666 | 3,734,001 | (96,335) |
| State taxes and shared revenues | 2,065,986 | - | 2,065,986 | 2,025,256 | 40,730 |
| Property tax | 493,966 | - | 493,966 | 499,113 | (5,147) |
| Franchise fees and business licenses | 743,323 | - | 743,323 | 709,670 | 33,653 |
| Gain on investments | 13,683 | - | 13,683 | 4,331 | 9,352 |
| Other | 215,544 | - | 215,544 | 59,219 | 156,325 |
| Total Revenues | <u>9,925,766</u> | <u>3,250,008</u> | <u>13,175,774</u> | <u>13,027,156</u> | <u>148,618</u> |
| Expenses: | | | | | |
| General government | 1,724,610 | - | 1,724,610 | 1,514,561 | 210,049 |
| Police | 3,007,507 | - | 3,007,507 | 3,220,921 | (213,414) |
| Fire | 2,516,428 | - | 2,516,428 | 1,901,763 | 614,665 |
| Sanitation | 546,147 | - | 546,147 | 609,364 | (63,217) |
| Public works | 1,107,706 | - | 1,107,706 | 1,096,552 | 11,154 |
| Streets | 966,501 | - | 966,501 | 1,038,198 | (71,697) |
| Library | 153,626 | - | 153,626 | 181,662 | (28,036) |
| Museum | 183,562 | - | 183,562 | 152,220 | 31,342 |
| Active adult center | 172,375 | - | 172,375 | 190,197 | (17,822) |
| Community development | 105,526 | - | 105,526 | 22,716 | 82,810 |
| Fleet management | 97,759 | - | 97,759 | - | 97,759 |
| Engineering | 4,971 | - | 4,971 | - | 4,971 |
| Parks and recreation | 49 | - | 49 | - | 49 |
| Interest on Long-term debt | - | - | - | 979 | (979) |
| Water Utility | - | 1,975,958 | 1,975,958 | 1,760,519 | 215,439 |
| Sewer Utility | - | 1,237,421 | 1,237,421 | 915,098 | 322,323 |
| Total Expenses | <u>10,586,767</u> | <u>3,213,379</u> | <u>13,800,146</u> | <u>12,604,750</u> | <u>1,195,396</u> |
| Change in net position | (661,001) | 36,629 | (624,372) | 422,406 | (1,046,778) |
| Beginning net position | <u>(3,032,739)</u> | <u>9,160,087</u> | <u>6,127,348</u> | <u>5,704,942</u> | <u>422,406</u> |
| Ending net position | <u>\$ (3,693,740)</u> | <u>\$ 9,196,716</u> | <u>\$ 5,502,976</u> | <u>\$ 6,127,348</u> | <u>\$ (624,372)</u> |

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

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.

Revenues of the governmental funds totaled \$9,886,940 in 2015-2016, an increase of 2.3% from 2014-2015. A comparative summary of principal revenues is as follows:

| | Increase (Decrease) from 2014-2015 | | | 2014-2015 |
|---|---------------------------------------|-------------------|-------------|---------------------|
| | 2015-2016 | Amount | % | |
| State Sales Tax | \$ 708,135 | \$ 25,065 | | \$ 683,070 |
| State Revenue Sharing | 906,852 | (4,943) | | 911,795 |
| Highway Users Tax | 715,743 | 288 | | 715,455 |
| Transportation Excise Tax | 409,713 | 250,422 | | 159,291 |
| Property Tax | 491,374 | (9,674) | | 501,048 |
| Vehicle Lieu Tax | 450,999 | 20,608 | | 430,391 |
| Grant Revenue | 210,402 | (252,131) | | 462,533 |
| City Sales Tax | 3,637,666 | (96,334) | | 3,734,000 |
| Bed Tax | 213,260 | 53,042 | | 160,218 |
| Utility Franchise | 276,683 | 98,747 | | 177,936 |
| Business Licenses | 466,640 | (65,094) | | 531,734 |
| Licenses, Permits and Other | 461,900 | 137,321 | | 324,579 |
| County Library Property Tax | 113,600 | 5,680 | | 107,920 |
| Fines and Forfeitures | 119,367 | 47,417 | | 71,950 |
| Sanitation Fees | 610,058 | 3,496 | | 606,562 |
| Museum Fees and Product Sales | 74,410 | 1,367 | | 73,043 |
| Interest income and Gain on investments | 13,683 | 8,154 | | 5,529 |
| Donations | 6,455 | 2,650 | | 3,805 |
| | <u>\$ 9,886,940</u> | <u>\$ 226,081</u> | <u>2.3%</u> | <u>\$ 9,660,859</u> |

Expenditures of the governmental funds totaled \$9,806,400 in 2015-2016, an increase of 4.3% from the prior year. The schedule that follows summarizes the expenditures and transfers.

| | Increase (Decrease) from 2014-2015 | | | 2014-2015 |
|-------------------------|---------------------------------------|-------------------|-------------|---------------------|
| | 2015-2016 | Amount | % | |
| Mayor and Council | \$ 391,765 | \$ 122,278 | | \$ 269,487 |
| Community Organizations | 108,125 | 8,125 | | 100,000 |
| Administration | 1,045,570 | 83,037 | | 962,533 |
| Fire | 2,251,256 | 470,590 | | 1,780,666 |
| Police | 2,793,601 | 102,311 | | 2,691,290 |
| Streets | 761,281 | (114,371) | | 875,652 |
| Sanitation | 542,049 | (70,666) | | 612,715 |
| Public Works | 1,008,980 | 13,626 | | 995,354 |
| Magistrate | 173,466 | 25,797 | | 147,669 |
| Museum | 182,387 | 30,722 | | 151,665 |
| Parks and Recreation | 50 | 50 | | - |
| Engineering | 5,093 | 5,093 | | - |
| Fleet Maintenance | 100,167 | 100,167 | | - |
| Library | 145,031 | (30,985) | | 176,016 |
| Active Adult Center | 167,882 | (20,160) | | 188,042 |
| Community development | - | (23,450) | | 23,450 |
| Capital Outlay | 120,135 | (244,937) | | 365,072 |
| Debt Service | 9,562 | (56,665) | | 66,227 |
| | <u>\$ 9,806,400</u> | <u>\$ 400,562</u> | <u>4.3%</u> | <u>\$ 9,405,838</u> |

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

Revenues (\$9,886,940) exceeded expenditures (\$9,806,400) by \$80,540 and revenues from other financing sources of \$53,107 increased the City's overall governmental fund balance carryover from \$4,814,943 at June 30, 2015 to \$4,947,943 at June 30, 2016. The \$133,647 increase for 2015-2016 was \$99,802 less than the \$233,449 increase for 2014-2015.

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 \$36,629 for the year ended June 30, 2016 compared to an increase of \$528,961 for 2014-2015. The primary cause of the decrease relates to an increase in repairs and maintenance and materials and supplies expense associated with the ongoing projects of the enterprises.

City Payroll and Fringe Benefits

The City's gross payroll for 2015-2016 was \$4,096,061, a decrease of 1.2% or \$48,596, from 2014- 2015. A summary by department follows:

| | 2015-2016 | Increase (Decrease) from 2014-2015 | | 2014-2015 |
|---------------------|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| Mayor and council | \$ 33,054 | \$ 5,454 | | \$ 27,600 |
| Administration | 394,884 | (6,417) | | 401,301 |
| Police | 1,131,872 | (148,302) | | 1,280,174 |
| Fire | 926,272 | 17,873 | | 908,399 |
| Streets | 250,349 | (44,163) | | 294,512 |
| Public works | 357,868 | 57,937 | | 299,931 |
| Museum | 76,832 | 7,405 | | 69,427 |
| Fleet Maintenance | 29,039 | 29,039 | | - |
| Magistrate | 122,884 | 8,223 | | 114,661 |
| Library | 75,441 | (16,128) | | 91,569 |
| Active adult center | 59,275 | (2,970) | | 62,245 |
| Water utility | 423,659 | 36,233 | | 387,426 |
| Sewer utility | 214,632 | 7,220 | | 207,412 |
| | <u>\$ 4,096,061</u> | <u>\$ (48,596)</u> | <u>-1.2%</u> | <u>\$ 4,144,657</u> |

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

The following payroll fringe benefits amounted to \$3,028,884, an increase of \$479,937, or 18.8%. The increase was due to increases in the health insurance premium and the required contribution for the pensions, as follows:

| | 2015-2016 | Increase (Decrease) from 2014-2015 | | 2014-2015 |
|--|---------------------|---------------------------------------|--------------|---------------------|
| | | Amount | % | |
| Social security and Medicare taxes | \$ 246,964 | \$ (4,584) | | \$ 251,548 |
| State retirement contributions | 231,648 | (9,933) | | 241,581 |
| Policemen's pension contributions | 534,427 | 164,400 | | 370,027 |
| Regular firemen's pension contributions | 401,940 | 84,063 | | 317,877 |
| Elected officials retirement contributions | 6,486 | - | | 6,486 |
| Industrial Insurance | 157,252 | (8,584) | | 165,836 |
| Health and life insurance | 1,450,167 | 254,575 | | 1,195,592 |
| | <u>\$ 3,028,884</u> | <u>\$ 479,937</u> | <u>18.8%</u> | <u>\$ 2,548,947</u> |

Fringe benefits provided by the City (\$3,028,884) amounted to 74% of the total gross payroll (\$4,096,061).

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 \$4,947,943, an increase of \$133,647 in comparison with the prior year. Approximately 93.6% of this total amount (\$4,633,816) constitutes the General Fund Balance, which is available for its ongoing obligations. At June 30, 2016 fund balances were as follows:

| | 2015-2016 | Increase (Decrease) from 2014-2015 | | 2014-2015 |
|--------------------------------|----------------------|---------------------------------------|-------------|----------------------|
| | | Amount | % | |
| Governmental Funds: | | | | |
| General Fund | \$ 4,633,816 | \$ (166,273) | | \$ 4,800,089 |
| Highway Users Fund | - | - | | - |
| Grants Fund | - | - | | - |
| Active adult center fund | - | (640) | | 640 |
| Library fund | - | (4,276) | | 4,276 |
| Transportation excise tax fund | 314,127 | 304,836 | | 9,291 |
| Total | <u>\$ 4,947,943</u> | <u>\$ 133,647</u> | <u>2.8%</u> | <u>\$ 4,814,296</u> |
| Proprietary Funds | | | | |
| Water utility fund | \$ 5,006,231 | \$ 291,322 | | \$ 4,714,909 |
| Sewer utility fund | 4,190,485 | (254,693) | | 4,445,178 |
| Total | <u>\$ 14,144,659</u> | <u>\$ 170,276</u> | <u>1.2%</u> | <u>\$ 13,974,383</u> |

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

Budgetary Highlights

The City's budget for fiscal year 2016 was \$24,258,172. This was a decrease of \$421,828 from the previous year's budget of \$24,680,000.

The City Council is authorized to allocate its contingency budget to increase departmental budgets within any fund, as long as total budgeted expenditures as originally adopted are not exceeded. For the year ended June 30, 2016, the general fund contingency budget was transferred to the following departments or funds to provide for unexpected additional expenditures.

| <u>Fund/Department</u> | <u>Excess</u> |
|--------------------------|---------------|
| General Fund | |
| Community Organizations | \$ 8,125 |
| Administration | 226,043 |
| Fire | 339,737 |
| Public Works | 49,845 |
| Magistrate | 12,480 |
| Museum | 27,917 |
| Parks and Recreation | 50 |
| Engineering | 5,093 |
| Fleet Maintenance | 17,840 |
| Other Governmental Funds | |
| Active Adult Center | 25,745 |

Capital Asset and Debt Administration

Capital Assets

The following is a comparison of capital assets net of depreciation for 2016 and 2015.

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|--|--------------------------------|---------------------|---------------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Land | \$ 1,298,822 | \$ 1,298,822 | \$ 287,893 | \$ 287,893 |
| Construction in progress | | - | 4,919,129 | - |
| Buildings | 1,347,291 | 1,502,320 | 1,655,273 | 1,849,076 |
| Street infrastructure and other improvements | 1,026,501 | 1,175,200 | 5,602,266 | 7,096,697 |
| Machinery and equipment | 812,387 | 1,019,172 | 325,329 | 258,518 |
| | <u>\$ 4,485,001</u> | <u>\$ 4,995,514</u> | <u>\$ 12,789,890</u> | <u>\$ 9,492,184</u> |

Long-Term Obligations

The City's Water Utility borrowed an additional \$3,034,880 of the 2014 WIFA loans to fund additional water and well system expenditures. The City also entered into a capital lease agreement for road construction equipment. The amount leased was \$53,107 and is payable over 6 years.

City of Globe, Arizona
Management Discussion and Analysis
June 30, 2016

FISCAL YEAR 2015-2016 ACCOMPLISHMENTS

State shared revenues increased \$40,730 from the prior year, and an increase in grants and contributions of \$225,281, along with an increase of state taxes and shared revenues of \$40,730.

In 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. Globe has a \$10,000,000 million PSPRS unfunded liability and a \$4,000,000.00 ASRS unfunded liability. Ultimately the Task Force recommended a .3% sales tax increase and to designate those funds to go towards 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 \$10,000,000.00 liability. 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 2015-2016 fiscal year. Water and sewer revenues held stable so it was determined not to implement an increase for this year.

In 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%. \$4,076,218.43 in expenditures were incurred for the year ended June 2016 and were reimbursed to the City by WIFA.

City of Globe, Arizona
Statement of Net Position
June 30, 2016

| | PRIMARY GOVERNMENT | | Total |
|--|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-type Activities | |
| Assets | | | |
| Cash and investments | \$ 5,008,890 | \$ 4,740,881 | \$ 9,749,771 |
| Property Taxes Receivable | 41,371 | - | 41,371 |
| Accounts Receivable | 56,252 | 364,287 | 420,539 |
| Other Receivables | 196,230 | 326,735 | 522,965 |
| Due to Other Governments | 301,063 | - | 301,063 |
| Inventory | 30,513 | - | 30,513 |
| Prepaid Expenses | 7,595 | - | 7,595 |
| Capital assets, non-depreciable | 1,298,822 | 5,207,022 | 6,505,844 |
| Capital assets, depreciable, net | 3,186,179 | 7,582,868 | 10,769,047 |
| Total Assets | <u>10,126,915</u> | <u>18,221,793</u> | <u>28,348,708</u> |
| Deferred Outflows of Resources - Pensions | <u>2,971,536</u> | <u>97,824</u> | <u>3,069,360</u> |
| Liabilities | | | |
| Accounts payable | 273,377 | 611,385 | 884,762 |
| Accrued Expenses and Other Liabilities | 233,976 | 1,553 | 235,529 |
| Customer Deposits | 800 | 64,805 | 65,605 |
| Unearned revenues | 24,576 | - | 24,576 |
| Non-Current Liabilities: | | | |
| Due within one year: | | | |
| Capital Lease | 8,169 | - | 8,169 |
| Water Revenue Loans Payable - Current | - | 301,319 | 301,319 |
| Compensated Absences | 105,374 | 24,860 | 130,234 |
| Due in more than one year: | | | |
| Capital Lease | 35,376 | - | 35,376 |
| Water Revenue Loans Payable | - | 6,870,325 | 6,870,325 |
| Compensated Absences | 490,994 | 98,275 | 589,269 |
| Post Employment Benefits Obligations Payable | 34,689 | - | 34,689 |
| Net Pension Liabilities | 14,332,252 | 1,017,471 | 15,349,723 |
| Total liabilities | <u>15,539,583</u> | <u>8,989,993</u> | <u>24,529,576</u> |
| Deferred Inflows of Resources - Pensions | <u>1,252,608</u> | <u>132,908</u> | <u>1,385,516</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 4,441,456 | 5,618,246 | 10,059,702 |
| Restricted for: | | | |
| Street Improvements | 314,127 | - | 314,127 |
| Revenue Bond Debt Service Reserve | - | 371,406 | 371,406 |
| Revenue Bond Repair and Maintenance Reserve | - | 186,446 | 186,446 |
| Unrestricted | (8,449,323) | 3,020,618 | (5,428,705) |
| Total Net Position | <u>\$ (3,693,740)</u> | <u>\$ 9,196,716</u> | <u>\$ 5,502,976</u> |

See Accompanying Notes to Financial Statements.

**City of Globe, Arizona
Statement of Activities
Years Ended June 30, 2016**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---------------------------------------|----------------------|----------------------|-----------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating grant and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Governmental Activities: | | | | | | | |
| Mayor and Council | \$ 415,951 | \$ - | \$ - | \$ - | \$ (415,951) | \$ - | \$ (415,951) |
| Community Organizations | 105,526 | - | 213,260 | - | 107,734 | - | 107,734 |
| Administration | 1,139,363 | - | 6,455 | - | (1,132,908) | - | (1,132,908) |
| Police | 3,007,507 | 34,101 | 12,410 | 5,349 | (2,955,647) | - | (2,955,647) |
| Fire | 2,516,428 | 199,689 | - | 6,000 | (2,310,739) | - | (2,310,739) |
| Streets | 966,501 | - | 1,125,456 | - | 158,955 | - | 158,955 |
| Sanitation | 546,147 | 610,058 | - | - | 63,911 | - | 63,911 |
| Public Works | 1,107,706 | 15,639 | - | 108,924 | (983,143) | - | (983,143) |
| Magistrate | 169,296 | 123,346 | - | 750 | (45,200) | - | (45,200) |
| Library | 153,626 | 9,076 | 117,264 | - | (27,286) | - | (27,286) |
| Museum | 183,562 | 74,410 | - | - | (109,152) | - | (109,152) |
| Parks and Recreation | 49 | - | - | - | (49) | - | (49) |
| Engineering | 4,971 | - | - | - | (4,971) | - | (4,971) |
| Fleet Maintenance | 97,759 | - | - | - | (97,759) | - | (97,759) |
| Active Adult Center | 172,375 | 20,106 | 73,305 | - | (78,964) | - | (78,964) |
| Total Governmental Activities | <u>10,586,767</u> | <u>1,086,425</u> | <u>1,548,150</u> | <u>121,023</u> | <u>(7,831,169)</u> | <u>-</u> | <u>(7,831,169)</u> |
| Business-type Activities: | | | | | | | |
| Water | 1,975,958 | 2,267,280 | - | - | - | 291,322 | 291,322 |
| Sewer | 1,237,421 | 982,728 | - | - | - | (254,693) | (254,693) |
| Total Business-type Activities | <u>3,213,379</u> | <u>3,250,008</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>36,629</u> | <u>36,629</u> |
| Total | <u>\$ 13,800,146</u> | <u>\$ 4,336,433</u> | <u>\$ 1,548,150</u> | <u>\$ 121,023</u> | <u>(7,831,169)</u> | <u>36,629</u> | <u>(7,794,540)</u> |
| General Revenues: | | | | | | | |
| State Sales Tax | | | | | 708,135 | - | 708,135 |
| State Revenue Sharing | | | | | 906,852 | - | 906,852 |
| Property Tax | | | | | 493,966 | - | 493,966 |
| Vehicle Lieu Tax | | | | | 450,999 | - | 450,999 |
| City Sales Tax | | | | | 3,637,666 | - | 3,637,666 |
| Utility Franchise Fees | | | | | 276,683 | - | 276,683 |
| Business Licenses | | | | | 466,640 | - | 466,640 |
| Miscellaneous | | | | | 215,544 | - | 215,544 |
| Gain on Investments | | | | | 13,683 | - | 13,683 |
| Total General Revenues and Transfers | | | | | <u>7,170,168</u> | <u>-</u> | <u>7,170,168</u> |
| Change in Net Position | | | | | (661,001) | 36,629 | (624,372) |
| Net Position - Beginning, as restated | | | | | (3,032,739) | 9,160,087 | 6,127,348 |
| Net Position - Ending | | | | | <u>\$ (3,693,740)</u> | <u>\$ 9,196,716</u> | <u>\$ 5,502,976</u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Balance Sheet – Governmental Funds
June 30, 2016

| | General Fund | Highway Users Fund | Grants Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-----------------------|------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and investments | \$ 4,703,452 | \$ - | \$ 24,576 | \$ 280,862 | \$ 5,008,890 |
| Property Taxes Receivable | 41,371 | - | - | - | 41,371 |
| Accounts Receivable | 56,252 | - | - | - | 56,252 |
| Other Receivables | 196,230 | - | - | - | 196,230 |
| Due from Other Governments | 171,152 | 67,599 | 285 | 62,027 | 301,063 |
| Due from Other Funds | 64,910 | - | - | 1,542 | 66,452 |
| Inventory | 30,513 | - | - | - | 30,513 |
| Prepaid Expenses | 7,595 | - | - | - | 7,595 |
| Total Assets | <u>\$ 5,271,475</u> | <u>\$ 67,599</u> | <u>\$ 24,861</u> | <u>\$ 344,431</u> | <u>\$ 5,708,366</u> |
| Liabilities, Deferred Inflows, and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 240,164 | \$ 23,688 | \$ - | \$ 9,525 | \$ 273,377 |
| Accrued Expenses and Other Liabilities | 233,911 | - | - | 65 | 233,976 |
| Compensated Absences - Current | - | - | - | - | - |
| Due to Other Funds | 1,542 | 43,911 | 285 | 20,714 | 66,452 |
| Deposits | 800 | - | - | - | 800 |
| Deferred Revenues | - | - | 24,576 | - | 24,576 |
| Total Liabilities | <u>476,417</u> | <u>67,599</u> | <u>24,861</u> | <u>30,304</u> | <u>599,181</u> |
| Deferred Inflows of Resources | | | | | |
| Unavailable revenue-property taxes | 30,574 | - | - | - | 30,574 |
| Unavailable revenue-court fines | 130,668 | - | - | - | 130,668 |
| Total deferred inflows of resources | <u>161,242</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>161,242</u> |
| Fund Balances: | | | | | |
| Nonspendable | 38,108 | - | - | - | 38,108 |
| Restricted: | | | | | |
| Street Improvements | - | - | - | 314,127 | 314,127 |
| Committed: | | | | | |
| Self-insurance transfer | 362,072 | - | - | - | 362,072 |
| Recycling Program | 23,017 | - | - | - | 23,017 |
| Cemetery Improvements | 70,987 | - | - | - | 70,987 |
| Unassigned | 4,139,632 | - | - | - | 4,139,632 |
| Total Fund Balances | <u>4,633,816</u> | <u>-</u> | <u>-</u> | <u>314,127</u> | <u>4,947,943</u> |
| Total Liabilities, Deferred Inflows, and Fund Balances | <u>\$ 5,271,475</u> | <u>\$ 67,599</u> | <u>\$ 24,861</u> | <u>\$ 344,431</u> | <u>\$ 5,708,366</u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Position
June 30, 2016

| | | |
|---|-----------|--------------------|
| Fund balances-total governmental funds | \$ | 4,947,943 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets of \$15,935,520, net of accumulated depreciation of (\$11,450,519), are not financial resources and therefore, are not reported in the funds | | 4,485,001 |
| Other long-term assets (receivables) are not available to pay for current period expenditures and therefore, are deferred inflows of resources in the funds. These include property taxes of \$30,574 and magistrate fines of \$130,668 | | 161,242 |
| Compensated Absences are payable only upon employee retirement and therefore are not payable from current resources | | (596,368) |
| Pension benefit obligations of \$14,332,252, deferred outflows of resources for pensions of (\$2,971,536) and deferred inflows of resources for pensions of \$1,252,608 | | (12,613,324) |
| Capital leases are not due and payable in the current period and, therefore, are not reported in the funds | | (43,545) |
| Long-term liabilities for post employment health benefits are not due and payable in the current period and therefore are not reported in the funds | | (34,689) |
| Net position of governmental activities | <u>\$</u> | <u>(3,693,740)</u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the Year Ended June 30, 2016

| | General Fund | Highway Users Fund | Grants Fund | Other Governmental Funds | Total Governmental Funds |
|---|-----------------|-----------------------|----------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| State Sales Tax | \$ 708,135 | \$ - | \$ - | \$ - | \$ 708,135 |
| State Revenue Sharing | 906,852 | - | - | - | 906,852 |
| Highway Users Tax | - | 715,743 | - | - | 715,743 |
| Transportation Excise Tax | - | - | - | 409,713 | 409,713 |
| Property Tax | 491,374 | - | - | - | 491,374 |
| Vehicle Lieu Tax | 450,999 | - | - | - | 450,999 |
| Grant Revenue | - | - | 137,097 | 73,305 | 210,402 |
| City Sales Tax | 3,637,666 | - | - | - | 3,637,666 |
| Bed Tax | 213,260 | - | - | - | 213,260 |
| Utility Franchise | 276,683 | - | - | - | 276,683 |
| Business Licenses | 466,640 | - | - | - | 466,640 |
| Licenses, Permits and Other | 402,054 | - | - | 59,846 | 461,900 |
| County Library Property Tax | - | - | - | 113,600 | 113,600 |
| Fines and Forfeitures | 119,367 | - | - | - | 119,367 |
| Sanitation Fees | 610,058 | - | - | - | 610,058 |
| Museum Fees and Product Sales | 74,410 | - | - | - | 74,410 |
| Gain on Investments | 13,683 | - | - | - | 13,683 |
| Donations | 6,455 | - | - | - | 6,455 |
| Total Revenues | 8,377,636 | 715,743 | 137,097 | 656,464 | 9,886,940 |
| Expenditures: | | | | | |
| Mayor and Council | 391,765 | - | - | - | 391,765 |
| Community Organizations | 108,125 | - | - | - | 108,125 |
| Administration | 1,045,570 | - | - | - | 1,045,570 |
| Fire | 2,245,256 | - | 6,000 | - | 2,251,256 |
| Police | 2,775,842 | - | 17,759 | - | 2,793,601 |
| Streets | - | 715,743 | - | 45,538 | 761,281 |
| Sanitation | 542,049 | - | - | - | 542,049 |
| Public Works | 900,056 | - | 108,924 | - | 1,008,980 |
| Magistrate | 172,716 | - | 750 | - | 173,466 |
| Museum | 182,387 | - | - | - | 182,387 |
| Parks and Recreation | 50 | - | - | - | 50 |
| Engineering | 5,093 | - | - | - | 5,093 |
| Fleet Maintenance | 100,167 | - | - | - | 100,167 |
| Library | - | - | 3,664 | 141,367 | 145,031 |
| Active Adult Center | - | - | - | 167,882 | 167,882 |
| Capital Outlay | 60,796 | - | - | 59,339 | 120,135 |
| Debt Service: | | | | | |
| Principal | 9,562 | - | - | - | 9,562 |
| Total Expenditures | 8,539,434 | 715,743 | 137,097 | 414,126 | 9,806,400 |
| Excess of revenues over (Under) Expenditures | (161,798) | - | - | 242,338 | 80,540 |
| Other Financing Sources (uses): | | | | | |
| Transfers to other funds | (57,582) | - | - | - | (57,582) |
| Transfers from the general fund | - | - | - | 57,582 | 57,582 |
| Proceeds of Long Term Debt Obligations | 53,107 | - | - | - | 53,107 |
| Net Other Financing Sources (Uses) | (4,475) | - | - | 57,582 | 53,107 |
| Net change in fund balances | (166,273) | - | - | 299,920 | 133,647 |
| Fund Balances, Beginning (as restated) | 4,800,089 | - | - | 14,207 | 4,814,296 |
| Fund Balances, Ending | \$ 4,633,816 | \$ - | \$ - | \$ 314,127 | \$ 4,947,943 |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances-total governmental funds \$ 133,647

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 | 120,135 |
| Depreciation expense | (630,648) |

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

| | |
|----------------------------------|--------|
| Decrease in compensated absences | 55,396 |
|----------------------------------|--------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These include an increase of (\$2,592) in the City's property taxes and an increase of (\$36,234) in court fines.

38,826

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.

| | |
|---------------------------------------|----------|
| Debt issued - capital lease agreement | (53,107) |
| Capital leases repaid | 9,562 |

On the statement of activities, the actual and projected long-term expenditures for post retirement health benefits are reported whereas on the governmental funds only the actual expenditures are recorded for post employment benefits.

12,532

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 City'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.

| | |
|-----------------------|-------------|
| Pension contributions | 1,071,561 |
| Pension expense | (1,418,905) |

Change in net position of governmental activities

\$ (661,001)

City of Globe, Arizona
Statement of Fund Net Position – Proprietary Funds
For the Year Ended June 30, 2016

| | <u>Water Utility</u> | <u>Sewer Utility</u> | <u>Total Proprietary Funds</u> |
|--|--------------------------|--------------------------|--|
| Assets | | | |
| Current Assets: | | | |
| Cash and investments | \$ 3,013,535 | \$ 1,727,346 | \$ 4,740,881 |
| Accounts Receivable | 261,278 | 103,009 | 364,287 |
| Other Receivables | 326,735 | - | 326,735 |
| Total Current Assets | <u>3,601,548</u> | <u>1,830,355</u> | <u>5,431,903</u> |
| Capital Assets: | | | |
| Land and Construction in Progress | 5,116,415 | 90,607 | 5,207,022 |
| Depreciable Capital Assets, Net | 4,868,361 | 2,714,507 | 7,582,868 |
| Total Assets | <u>13,586,324</u> | <u>4,635,469</u> | <u>18,221,793</u> |
| Deferred Outflows of Resources - Pensions | <u>63,771</u> | <u>34,053</u> | <u>97,824</u> |
| Liabilities | | | |
| Current Liabilities: | | | |
| Accounts payable | 558,761 | 52,624 | 611,385 |
| Sales Tax Payable | 1,553 | - | 1,553 |
| Customer Deposits | 64,805 | - | 64,805 |
| Current portion of compensated absences | 19,619 | 5,241 | 24,860 |
| Water Revenue Loans Payable - Current | 301,319 | - | 301,319 |
| Total Current Liabilities | <u>946,057</u> | <u>57,865</u> | <u>1,003,922</u> |
| Non-Current Liabilities: | | | |
| Compensated Absences | 77,557 | 20,718 | 98,275 |
| WIFA Loans payable | 6,870,325 | - | 6,870,325 |
| Net Pension Liabilities | 663,283 | 354,188 | 1,017,471 |
| Total Non-Current Liabilities | <u>7,611,165</u> | <u>374,906</u> | <u>7,986,071</u> |
| Total Liabilities | <u>8,557,222</u> | <u>432,771</u> | <u>8,989,993</u> |
| Deferred Inflows of Resources - Pensions | <u>86,642</u> | <u>46,266</u> | <u>132,908</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 2,813,132 | 2,805,114 | 5,618,246 |
| Restricted for Revenue Bond Debt Service | 371,406 | - | 371,406 |
| Restricted for Repair and Replacement Reserve | 186,446 | - | 186,446 |
| Committed for Water Exploration | 857,137 | - | 857,137 |
| Unrestricted | 778,110 | 1,385,371 | 2,163,481 |
| Total Net Position | <u>\$ 5,006,231</u> | <u>\$ 4,190,485</u> | <u>\$ 9,196,716</u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Statement of Revenues, Expenses and Changes in Fund Net Position –
Proprietary Funds
For the Year Ended June 30, 2016

| | Business-type Activities-Enterprise Funds | | |
|---|--|--------------------------|---------------------|
| | Water Utility | Sewer Utility | Total |
| Operating Revenues: | | | |
| Charges for Services | \$ 2,144,511 | \$ 978,688 | \$ 3,123,199 |
| Taps, Extensions and Permits | 38,349 | 2,040 | 40,389 |
| Penalties | 75,802 | - | 75,802 |
| Miscellaneous | 8,618 | 2,000 | 10,618 |
| Total Operating Revenues | <u>2,267,280</u> | <u>982,728</u> | <u>3,250,008</u> |
| Operating Expenses: | | | |
| Personal Services | 638,104 | 337,262 | 975,366 |
| Telephone and Utilities | 370,717 | 127,364 | 498,081 |
| Repairs and Maintenance | 498,770 | 201,126 | 699,896 |
| Materials and supplies | 229,117 | 271,485 | 500,602 |
| Miscellaneous | 24,230 | 37,419 | 61,649 |
| Depreciation | 415,540 | 250,464 | 666,004 |
| Bad Debt Expense | 19,150 | - | 19,150 |
| Insurance | 40,576 | 12,301 | 52,877 |
| Total Operating Expenses | <u>2,236,204</u> | <u>1,237,421</u> | <u>3,473,625</u> |
| Operating Income (Loss) | <u>31,076</u> | <u>(254,693)</u> | <u>(223,617)</u> |
| Non-Operating Revenues (Expenses): | | | |
| Proceeds from lawsuit settlement | 431,610 | - | 431,610 |
| Interest Expense | (171,364) | - | (171,364) |
| Total Non-Operating Revenues (Expenses) | <u>260,246</u> | <u>-</u> | <u>260,246</u> |
| Changes in Net Position | 291,322 | (254,693) | 36,629 |
| Total Net Position - Beginning, as restated | 4,714,909 | 4,445,178 | 9,160,087 |
| Total Net Position - Ending | <u>\$ 5,006,231</u> | <u>\$ 4,190,485</u> | <u>\$ 9,196,716</u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Statements of Cash Flows
Proprietary Funds
Years Ended June 30, 2016

| | Water Utility | Sewer Utility | Total Proprietary Funds |
|---|--------------------------|--------------------------|--|
| Cash Flows from Operating Activities: | | | |
| Cash Received from Customers | \$ 2,587,112 | \$ 999,537 | \$ 3,586,649 |
| Cash Payments to Suppliers for Goods and Services | (645,016) | (339,484) | (984,500) |
| Cash Payments for Employees, Payroll Taxes and Fringe Benefits | (409,672) | (636,166) | (1,045,838) |
| Net Cash Provided(used) by Operating Activities | 1,532,424 | 23,887 | 1,556,311 |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Pension Obligations | (26,097) | (11,700) | (37,797) |
| Net Cash used by Non-Capital Financing Activities | (26,097) | (11,700) | (37,797) |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Water Revenue Bond Proceeds, Net | 3,034,880 | - | 3,034,880 |
| Interest Expense Payments | (171,364) | - | (171,364) |
| Principal Payments on Debt | (292,429) | - | (292,429) |
| Proceeds from lawsuit settlement | 105,000 | - | 105,000 |
| Acquisition and Construction of Capital Assets | (3,752,185) | (211,526) | (3,963,711) |
| Net Cash Provided Used for Capital and Related Financing Activities | (1,076,098) | (211,526) | (1,287,624) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 430,229 | (199,339) | 230,890 |
| Cash and Cash Equivalents - Beginning of Year | 2,583,306 | 1,926,685 | 4,509,991 |
| Cash and Cash Equivalents - End of Year | \$ 3,013,535 | \$ 1,727,346 | \$ 4,740,881 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating Income (Loss) | \$ 31,076 | \$ (254,693) | \$ (223,617) |
| Adjustments to reconcile operating Income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 415,540 | 250,464 | 666,004 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources | | | |
| (Increase) Decrease in Due from Other Funds | 500,000 | - | 500,000 |
| (Increase) Decrease in Accounts Receivable | (21,760) | (12,694) | (34,454) |
| (Increase) Decrease in Other Receivables | 337,087 | 29,503 | 366,590 |
| Increase (Decrease) in Accounts Payable | 284,597 | 13,529 | 298,126 |
| Increase (Decrease) in Sales Tax Payable and Deposits | (7,204) | - | (7,204) |
| Increase (Decrease) in Compensated Absences | (3,766) | (2,222) | (5,988) |
| Increase (Decrease) in Post Employment Benefits Obligations Payable | (3,146) | - | (3,146) |
| Total Adjustments | 1,501,348 | 278,580 | 1,779,928 |
| Net Cash Provided (Used) by Operating Activities | \$ 1,532,424 | \$ 23,887 | \$ 1,556,311 |

Supplemental Schedule of Noncash Financing Activities:

During the year ending June 30, 2016, the City recorded a receivable totaling \$326,610 for proceeds from a lawsuit that is to be received soon after fiscal year end.

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Statement of Fiduciary Net Position
Fiduciary Fund
Years Ended June 30, 2016

| | Volunteer Firemen's Relief and Pension Fund |
|--|--|
| <hr/> | |
| Assets | |
| Cash and investments | \$ 37,102 |
| Total Assets | <u>37,102</u> |
| | |
| Liabilities | |
| Accrued Expenses and Other Liabilities | - |
| Total Liabilities | <u>-</u> |
| | |
| Net Position Held in Trust for Pension Benefits | <u><u>\$ 37,102</u></u> |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For The Year Ended June 30, 2016

| | Volunteer Firemen's Relief and Pension Fund |
|--|--|
| <hr/> | |
| Additions | |
| Contributions: | |
| Employer | \$ 75 |
| Plan Members | 75 |
| Total Contributions | 150 |
| Investment Income: | |
| Gain (Loss) on investments | 99 |
| Interest | - |
| Total Investment Income | 99 |
| Total Additions | 249 |
| Deductions | |
| Benefits | 6,970 |
| Refunds of Contributions | |
| Administrative Expenses | - |
| Total Deductions | 6,970 |
| Change in Net Assets | (6,721) |
| Net Position Held in Trust for Pension Benefits - Beginning of Year | 43,823 |
| Net Position Held in Trust for Pension Benefits - End of Year | \$ 37,102 |

See Accompanying Notes to Financial Statements.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Note 1 PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

The City of Globe, Arizona operates under a council-manager form of government and provides the following services as authorized by statute: police and fire protection, highways and streets maintenance, sanitation, water, sewer, parks and recreation, public improvements, planning and zoning and general administrative services.

The accounting and reporting framework and the more significant accounting principles and practices of the City of Globe (City) are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanation, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2016.

A. Reporting Entity

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The basic criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Based upon the application of these criteria, the City does not have any component units.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole, excluding fiduciary activities such as employee pension plans. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services, (2) operating grants and contributions which finance operating activities including the Bed tax, Highway Users tax, Transportation Excise Tax and the County Library Property tax; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements - Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and utility funds are reported in separate columns with a composite column for non-major governmental funds.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grant revenues are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, charges to customers for services, property taxes, franchise fees, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

D. Fund Types and Major Funds

Governmental Funds

The City reports the following major governmental funds.

General Fund - reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Highway Users Fund - the City receives a share of the State's gas tax, which is to be used solely for street and highway expenditures.

Grants Fund - established to account for the City's grant programs not reported in proprietary funds or other funds.

The City also has the Transportation Excise Tax Fund, the Active Adult Center Fund and Library Fund which are aggregated in the "Other Governmental Funds" column.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Proprietary Funds

The City has two enterprise funds and reports them both as major funds.

Water Utility Fund - accounts for the operating activities of the City's water utility services.

Sewer Utility Fund - accounts for the operating activities of the City's sewer utility services.

Fiduciary Fund

Volunteer Firemen's Relief and Pension Fund - reports fiduciary resources held in trust and the receipt, investment, and distribution of retirement contributions.

E. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, restricted and unrestricted cash in bank and short-term investments.

Arizona statutes authorize the City to invest public monies in the State Treasurer's local government investment pools, the County Treasurer's investment pool, in obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities. By identification of permitted investments, all other investments are prohibited by the same statutes. The statutes do not include any requirements for credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk for the City's investments.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

All investments are stated at fair value.

2. Inventories and Prepaid Expenses

Inventories consist of books, postcards and other items available for sale to the public at the Besh Ba Gowah Museum (\$30,513).

Prepaid expenses record payments to vendors that benefit future reporting periods. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

3. Capital Assets and Depreciation

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets beginning July 1, 2009. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. The City has elected not to report general infrastructure assets retroactively for assets purchased prior to July 1, 2003.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|-------------------------------------|---------|
| Buildings | 10 - 40 |
| Improvements, other than buildings | 5 - 40 |
| Furniture, machinery, and equipment | 3 - 10 |
| Street and Highway Infrastructure | 10 |

4. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate unused sick leave to a maximum of 120 days. To encourage employees to accrue sick leave for the full term of employment, the city will "buy-back" sick leave upon retirement at a ratio of one day's pay for each four days of sick leave the employee has accrued at retirement. Sick leave is not compensated for any other means of separation other than retirement. Accordingly, sick leave benefits are accrued as a liability in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee retirement by fiscal year-end.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

5. Net Position

Government-wide Statements

Net position is displayed in five components:

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as restricted, committed, assigned and unassigned.

6. Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources relative to pensions, and pension expense, information about the pension plans fiduciary net position and additions/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 refund of employee contribution are recognized when due and payable in acceptance of the benefit terms. Investments are reported at fair value.

Note 2 Stewardship, Compliance, and Accountability

Budgeting:

The City Manager submits an annual budget to the City Council in accordance with Arizona State Statutes. The budget is presented to the City Council for review, and public hearings are held to address priorities and the allocation of resources. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department. The legal level of control is by department within a fund. It is the City's policy to use budgeted contingency funds when departments incur excess over the budgeted amounts due to unexpected expenditures.

For the year ended June 30, 2016, expenditures exceeded final budget amounts at the department level (the level of budgetary control) as follows:

| Fund/Department | Excess |
|--------------------------|----------|
| General Fund | |
| Community Organizations | \$ 8,125 |
| Administration | 226,043 |
| Fire | 339,737 |
| Public Works | 49,845 |
| Magistrate | 12,480 |
| Museum | 27,917 |
| Parks and Recreation | 50 |
| Engineering | 5,093 |
| Fleet Maintenance | 17,840 |
| Other Governmental Funds | |
| Active Adult Center | 25,745 |

Note 3 Deposits and Investments

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. The City does not have a formal deposit policy for custodial credit risk. At year end, the carrying amount of the City's deposits was \$5,307,772 and the bank balance was \$5,686,772. The bank balance was covered entirely by FDIC coverage and collateral held by the pledging financial institution in the City's name. The City also had cash on hand of \$1,635.

Investments

The City's investments of \$4,440,364 consist of investments in the State Treasurer external investment pool 5. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The City has no investment policy that would further limit its investment choices. As of year-end, the City's investment in the State's investment pool 5 received a credit quality rating of Aaa from Moody's and had a weighted average maturity of less than one year.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Custodial Credit Risk – Investments. The City’s investment in the State Treasurer’s investment pool represents a proportionate interest in the pool’s portfolio; however, the City’s portion is not identified with specific investments and is not subject to custodial credit risk.

Note 4 Receivables

The following is a description of significant receivables as of June 30, 2016:

| | | | | |
|--|----|---------|--|--------------|
| PROPERTY TAXES RECEIVABLE - Property taxes due from County; revenue deferred for amounts assessed by County but uncollected (\$30,574) for governmental fund financial statements | | | | \$ 41,371 |
| ACCOUNTS RECEIVABLE: | | | | |
| Sanitation (\$56,252), Water (\$273,675), Sewer (\$103,009) | | | | 420,539 |
| OTHER RECEIVABLES: | | | | |
| Franchise Fees Receivable | \$ | 42,100 | | |
| Magistrate Fines Receivable (Deferred for Uncollected Amounts) | | 130,668 | | |
| Miscellaneous Receivables | | 23,587 | | |
| Legal Settlement Receivable | | 326,610 | | 522,965 |
| DUE FROM OTHER GOVERNMENTS: | | | | |
| City Sales Tax | | 96,286 | | |
| Highway Users Tax | | 67,599 | | |
| Transportation Excise Tax | | 35,608 | | |
| State Sales Tax | | 55,283 | | |
| Vehicle License Tax | | 19,583 | | |
| Active Adult Center Grants | | 26,419 | | |
| Other Grants | | 285 | | 301,063 |
| Total | | | | \$ 1,285,938 |

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on May 1 and payable in two installments on October 1 and April 1 of the subsequent year. The County bills and collects property taxes on behalf of the City. In the governmental fund financial statements, City property tax revenues are recognized when levied to the extent that they have been collected by the City within sixty days of year end. Assessed amounts that are uncollected are recorded as a receivable and deferred revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when cash is received. Over time, substantially all property taxes are collected.

The City is subject to a maximum primary property tax levy by Arizona State Statutes. For 2015-2016 this levy limit was \$671,538, and the City levied \$490,010 in primary taxes. The City has no secondary property tax levy for general obligation bonded debt.

Due from Other Government receivables are primarily comprised of amounts due from the federal and state governments. Revenue is recorded as earned when eligibility requirements are met. Revenues deferred in the governmental fund financial statements include unearned grant revenue (\$24,576). Other revenue is accrued that is unavailable to pay liabilities of the current period. These amounts are property taxes (\$30,574) and

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

magistrate fines (\$130,668) that have not been collected within sixty days of year end. \$161,242 is recorded as Deferred Inflows of Resources in the governmental fund financial statements.

Note 5 Capital Assets

The following table provides a summary of changes in capital assets for governmental activities:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------------|---------------------|------------------|---------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 1,298,822 | \$ - | \$ - | \$ 1,298,822 |
| Total capital assets not being depreciated | <u>1,298,822</u> | <u>-</u> | <u>-</u> | <u>1,298,822</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 4,056,820 | - | - | 4,056,820 |
| Furniture, Machinery and Equipment | 6,276,110 | 53,107 | - | 6,329,217 |
| Street Infrastructure and Improvements | | | | |
| Other than Buildings | 4,183,633 | 67,028 | - | 4,250,661 |
| Total capital assets being depreciated | <u>14,516,563</u> | <u>120,135</u> | <u>-</u> | <u>14,636,698</u> |
| <i>Less accumulated depreciation</i> | | | | |
| Buildings | (2,554,500) | (155,029) | - | (2,709,529) |
| Furniture, Machinery and Equipment | (5,256,938) | (259,892) | - | (5,516,830) |
| Street Infrastructure and Improvements | | | | |
| Other than Buildings | (3,008,433) | (215,727) | - | (3,224,160) |
| Total accumulated depreciation | <u>(10,819,871)</u> | <u>(630,648)</u> | <u>-</u> | <u>(11,450,519)</u> |
| Total capital assets being depreciated, net | <u>3,696,692</u> | <u>(510,513)</u> | <u>-</u> | <u>3,186,179</u> |
| Governmental activities capital assets, net | <u>\$ 4,995,514</u> | <u>\$ (510,513)</u> | <u>\$ -</u> | <u>\$ 4,485,001</u> |

| Business-type Activities | Beginning Balance | Increases | Reclassification | Ending Balance |
|---|------------------------------|---------------------|-------------------------|---------------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 287,893 | \$ - | \$ - | \$ 287,893 |
| Construction in Progress | - | 3,842,791 | 1,076,338 | 4,919,129 |
| Total capital assets not being depreciated | <u>287,893</u> | <u>3,842,791</u> | <u>1,076,338</u> | <u>5,207,022</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 6,530,994 | - | - | 6,530,994 |
| Furniture, Machinery and Equipment | 1,566,728 | 120,919 | - | 1,687,647 |
| Street Infrastructure and Improvements | | | | |
| Other than Buildings | 13,440,079 | - | (1,076,338) | 12,363,741 |
| Total capital assets being depreciated | <u>21,537,801</u> | <u>120,919</u> | <u>(1,076,338)</u> | <u>20,582,382</u> |
| <i>Less accumulated depreciation</i> | | | | |
| Buildings | (4,681,918) | (193,803) | - | (4,875,721) |
| Furniture, Machinery and Equipment | (1,308,210) | (54,108) | - | (1,362,318) |
| Street Infrastructure and Improvements | | | | |
| Other than Buildings | (6,343,382) | (418,093) | - | (6,761,475) |
| Total accumulated depreciation | <u>(12,333,510)</u> | <u>(666,004)</u> | <u>-</u> | <u>(12,999,514)</u> |
| Total capital assets being depreciated, net | <u>9,204,291</u> | <u>(545,085)</u> | <u>(1,076,338)</u> | <u>7,582,868</u> |
| Governmental activities capital assets, net | <u>\$ 9,492,184</u> | <u>\$ 3,297,706</u> | <u>\$ -</u> | <u>\$ 12,789,890</u> |

The estimated cost to complete the various construction in progress activities was \$501,817 at June 30, 2016.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Depreciation expense was charged to functions of the primary government as follows:

| Governmental Activities | | Business-type Activities | |
|--------------------------------|-------------------|---------------------------------|-------------------|
| Administration | \$ 131,462 | Water Utility | \$ 415,540 |
| Police | 51,402 | Sewer Utility | 250,464 |
| Fire | 57,980 | Total | <u>\$ 666,004</u> |
| Sanitation | 17,129 | | |
| Public Works | 122,983 | | |
| Museum | 5,560 | | |
| Streets | 223,522 | | |
| Active Adult Center | 8,529 | | |
| Library | 12,081 | | |
| Total | <u>\$ 630,648</u> | | |

Note 6 Long-term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2016:

| | Balance | | | Balance | Due |
|--------------------------|----------------------|---------------------|---------------------|----------------------|-------------------|
| | July 01, 2015 | Additions | Retirements | June 30, 2016 | Within |
| | | | | | One Year |
| Governmental Activities | | | | | |
| Capital Lease | \$ - | \$ 53,107 | \$ (9,562) | \$ 43,545 | \$ 8,169 |
| Compensated Absences: | | | | | |
| Vacation & Comp Time | 466,905 | - | (61,199) | 405,706 | 55,802 |
| Sick Leave | 184,859 | - | 5,803 | 190,662 | 49,572 |
| Total | <u>\$ 651,764</u> | <u>\$ 53,107</u> | <u>\$ (64,958)</u> | <u>\$ 639,913</u> | <u>\$ 113,543</u> |
| Business-type Activities | | | | | |
| 2004 Water Revenue Loans | \$ 3,387,855 | \$ - | \$ (192,905) | \$ 3,194,950 | \$ 199,473 |
| 2014 WIFA Loans | 1,041,338 | 3,034,880 | (99,524) | 3,976,694 | 101,846 |
| Compensated Absences: | | | | | |
| Vacation & Comp Time | 93,264 | - | (10,175) | 83,089 | 14,850 |
| Sick Leave | 35,859 | - | 4,187 | 40,046 | 10,010 |
| Total | <u>\$ 4,558,316</u> | <u>\$ 3,034,880</u> | <u>\$ (298,417)</u> | <u>\$ 7,294,779</u> | <u>\$ 326,179</u> |

Capital Lease Payable

In June 2016 the City entered into a capital lease agreement with a financial institution for the purchase of capital equipment to be used for the construction and maintenance of streets and highways. The lease is payable over six years with an annual interest of 3.2 percent. The first payment of \$9,562 was made in June 2016. No depreciation has been incurred on the asset as of June 30, 2016. Remaining payments are as follows:

| | Total | Interest | Principal |
|-----------|------------------|-----------------|------------------|
| 2016-2017 | \$ 9,562 | \$ 1,393 | \$ 8,169 |
| 2017-2018 | 9,562 | 1,132 | 8,430 |
| 2018-2019 | 9,562 | 862 | 8,700 |
| 2019-2020 | 9,562 | 583 | 8,979 |
| 2020-2021 | 9,562 | 295 | 9,267 |
| | <u>\$ 47,810</u> | <u>\$ 4,265</u> | <u>\$ 43,545</u> |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Water Loans Payable

On May 24, 2004, the Mayor and council approved a resolution authorizing an agreement with the Water Infrastructure Finance Authority (WIFA) for the borrowing of 3.405% Water Revenue loans, Project 2005 in an amount not to exceed \$5 million. As of June 30, 2016, \$4,999,880 had been obtained from the loan and principal of \$192,905 has been paid, for a remaining balance of \$3,194,950. Five annual debt service reserve amounts of \$61,653 have been reserved as of June 30, 2016, for a total of \$308,266. An additional \$123,306 has been reserved for the Repair and Replacement Reserve requirement.

Remaining payments to maturity are as follows.

| | <u>Total</u> | <u>Interest</u> | <u>Principal</u> |
|-----------|---------------------|-------------------|---------------------|
| 2016-2017 | \$ 308,265 | \$ 108,792 | \$ 199,473 |
| 2017-2018 | 308,265 | 102,000 | 206,265 |
| 2018-2019 | 308,265 | 94,976 | 213,289 |
| 2019-2020 | 308,265 | 87,714 | 220,551 |
| 2020-2021 | 308,265 | 80,204 | 228,061 |
| 2021-2026 | 1,541,327 | 279,114 | 1,262,213 |
| 2026-2029 | 924,676 | 59,578 | 865,098 |
| | <u>\$ 4,007,328</u> | <u>\$ 812,378</u> | <u>\$ 3,194,950</u> |

On June 25, 2014 the City entered into another agreement with WIFA whereby WIFA would provide \$5,500,000 in financial assistance for drinking water capital improvement projects. \$3,000,000 will be forgivable loans and \$2,500,000 will be payable over 20 years at 2.333%. The first payment of \$99,524 was made July 1, 2015. The debt balance at June 30, 2016 is \$3,976,694, of which \$3,000,000 is forgivable when the terms of the agreement are met. The loan agreement requires five annual reserve increases of \$31,570. As of June 30, 2016 \$63,140 has been reserved. An additional \$31,570 per year also must be set-aside for the Repair and Replacement Reserve requirement, of which \$63,140 has been reserved by year-end. Future payments due on the interest bearing portion are as follows:

| | <u>Total</u> | <u>Interest</u> | <u>Principal</u> |
|-----------|---------------------|-------------------|-------------------|
| 2016-2017 | \$ 308,265 | \$ 56,003 | \$ 101,846 |
| 2017-2018 | 308,265 | 53,627 | 104,222 |
| 2018-2019 | 308,265 | 51,196 | 106,653 |
| 2019-2020 | 308,265 | 48,707 | 109,142 |
| 2020-2021 | 308,265 | 46,160 | 111,688 |
| 2021-2026 | 601,115 | 157,972 | 443,143 |
| | <u>\$ 2,142,440</u> | <u>\$ 413,665</u> | <u>\$ 976,694</u> |

Note 7 Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are described and "due to/from other funds" (current interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**City of Globe, Arizona
Notes to Financial Statements
June 30, 2016**

The following is a reconciliation of the interfund receivables and payables at June 30, 2016:

| | Receivable Fund | Payable Fund |
|--------------------------|----------------------------|-------------------------|
| General Fund | \$ 64,910 | \$ 1,542 |
| HURF Fund | - | 43,911 |
| Grant Fund | - | 285 |
| Library | 1,542 | - |
| Active Adult Center Fund | - | 20,714 |
| | \$ 66,452 | \$ 66,452 |

Transfers

Transfers within the reporting entity are substantially for the purposes of subsidizing operating functions. The General Fund transferred \$43,331 to the Active Adult Center Fund, and \$14,251 to the Library Fund.

Note 8 Post-Employment Employee Health Care Benefits

A. PLAN DESCRIPTION

Due to the projected actuarial costs of the plan, the City terminated the plan for employees retiring from the City of Globe after December 31, 2012. The plan is still in effect for four retired employees participating in the plan as of June 30, 2016. Due to the significant expense of obtaining actuarial reports, the City is electing to use its own present value calculations for these benefits.

Eligibility for the fixed \$400/month single or family subsidy requires that an employee completed at least 10 years of continuous City service, participated in the City health plan until retirement, and commenced a state pension/health benefit.

B. FUNDED STATUS AND FUNDING PROGRESS

| Annual OPEB Obligation Activity | Fiscal Year Ending June 30, 2016 |
|--|---|
| Cumulative unfunded obligation at June 30, 2015 | \$ 50,367 |
| Net OPEB contributions made during the fiscal year | (15,678) |
| Cumulative Obligation at June 30, 2016 | \$ 34,689 |

As of June 30, 2016, the accrued liability for benefits was \$34,689 which was fully accrued on the government wide financial statements. The City's allocation of their OPEB liability was a 100% to the General Government function.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Note 9 Committed Fund Balances

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"

| | |
|-------------------------------------|--------------------------|
| Allocation of Revenue for 2015-2016 | \$ 66,425 |
| Expenditures | <u>(73,157)</u> |
| Decrease in committed fund balance | (6,732) |
| Committed Balance, July 1, 2015 | 863,869 |
| Committed Balance, June 30, 2016 | <u><u>\$ 857,137</u></u> |

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).

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."

| | |
|-------------------------------------|-------------------------|
| Allocation of Revenue for 2015-2016 | \$ 3,937 |
| Expenditures | <u>-</u> |
| Increase in committed fund balance | 3,937 |
| Committed Balance, July 1, 2015 | 67,050 |
| Committed Balance, June 30, 2016 | <u><u>\$ 70,987</u></u> |

Note 10 Pensions

The City contributes to the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS) - Fire, the Public Safety Personnel Retirement System (PSPRS) - Police and the Elected Officials Retirement Plan (EORP). The plans are component units of the State of Arizona.

At June 30, 2016 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 | \$ 14,332,252 | \$ 1,017,471 | \$15,349,723 |
| Deferred outflows of resources | 2,971,536 | 97,824 | 3,069,360 |
| Deferred inflows of resources | 1,252,608 | 132,908 | 1,385,516 |
| Pension expense | 1,418,905 | 34,163 | 1,453,068 |

The City's accrued payroll includes \$18,945 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the City reported \$1,071,561 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

A. Arizona State Retirement System

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

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

| ASRS | Initial membership date: | |
|--|--|---|
| | Before January 1, 2011 | On or after January 1, 2011 |
| Retirement and disability | | |
| Years of service and age required to receive benefit | 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 based on | Highest 36 consecutive months of last 120 months | Highest 60 consecutive months of last 120 months |
| Benefit percent per year of service | 2.1% to 2.3% | 2.1% to 2.3% |

*With actuarially reduced benefits.

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

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, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and statute required the City to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the ASRS. The City's contributions to the pension plan for the year ended June 30, 2016, were \$219,126. The City's OPEB contributions for the current and 2 preceding years, 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 | | |
| 2016 | \$ 10,100 | \$ 2,424 |
| 2015 | 12,024 | 2,446 |
| 2014 | 12,835 | 5,134 |

During fiscal year 2016, the City paid for ASRS pension and OPEB contributions as follows: 63 percent from the general fund, 34 percent from major funds, and 3 percent from other funds.

Pension liability - At June 30, 2016, the City reported a liability of \$3,509,498 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. 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, 2015. The City's proportion measured as of June 30, 2015, was .022 percent, which was a decrease of .002 percent from its proportion measured as of June 30, 2014.

Pension expense and deferred outflows/inflows of resources - For the year ended June 30, 2016, the City recognized pension expense for ASRS of \$103,665. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| ASRS | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 95,767 | \$ 183,901 |
| Net Difference between projected and actual earnings on pension plan investments | - | 112,472 |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | 162,058 |
| City contributions subsequent to the measurement date | 219,126 | - |
| | <u>\$ 314,893</u> | <u>\$ 458,431</u> |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

The \$219,126 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 ending June 30, 2017. 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:

| Schedule of Net Deferred Outflows and Inflows (Five Years) | | |
|--|----|-----------|
| Year ending June 30 | | |
| 2017 | \$ | (155,896) |
| 2018 | | (194,195) |
| 2019 | | (93,765) |
| 2020 | | 81,192 |
| 2021 | | - |
| | \$ | (362,664) |

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

| | |
|-----------------------------|-------------------|
| ASRS | |
| Actuarial valuation date | June 30, 2014 |
| Actuarial roll forward date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 8% |
| Projected salary increases | 3 - 6.75% |
| Inflation | 3% |
| Permanent benefit increase | Included |
| Mortality rate | 1994 GAM Scale BB |

Actuarial assumptions used in the June 30, 2014, 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 8.79 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 Asset class | Target allocation | Long-term expected arithmetic real rate of return |
|---------------------|----------------------|--|
| Equity | 58% | 6.79% |
| Fixed income | 25% | 3.70% |
| Real estate | 10% | 4.25% |
| Multi-asset | 5% | 3.41% |
| Commodities | 2% | 3.93% |
| Total | 100% | |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

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 8.79 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.

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 | <u>\$ 4,598,642</u> | <u>\$ 3,509,498</u> | <u>\$ 2,763,078</u> |

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. Public Safety Personnel Retirement System

Plan descriptions - City Police and Fire employees who are regularly assigned hazardous duty 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 a publicly available financial report that includes financial statements and required supplementary information for the PSPRS plan. The report is available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS 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 monthly compensation, and service credit as follows:

**City of Globe, Arizona
Notes to Financial Statements
June 30, 2016**

| PSPRS | 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 or 15 years age 62 | 25 years and age 52.5 |
| Final average salary based on | Highest 36 months of last 20 years | Highest 60 months of last 20 years |
| Benefit Percent | | |
| Normal Retirement | 50% less 2% for each year of credited service less than 20 years OR plus 2% or 2.5% for each year of credited service 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, w hichever is greater | |
| Catastrophic Disability Retirement | 90% for the first 60 months then reduced to either 62.5% or normal retirement w hichever is greater | |
| Ordinary Disability Retirement | Normal retirement calculated w ith actual years of credited service or 20 years of credited service, w hich ever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20 | |
| Survivor Benefit | | |
| Retired Members | 80% of retired member's pension benefits | |
| Active Members | 80% of accidental disability retirement benefit or 100% of average monthly compensation if death w as the result of injuries received on the job | |

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, from and after December 31, 2015, 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.

Employees covered by benefit terms - At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

| | PSPRS Fire | PSPRS Police |
|--|---------------|-----------------|
| Inactive employees or beneficiaries currently receiving benefits | 12 | 14 |
| Inactive employees entitled to but not yet receiving benefits | 4 | 8 |
| Active employees | 16 | 19 |
| Total | 32 | 41 |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

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. 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. Contribution rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

| | PSRPS Fire | PSPRS Police |
|----------------------------------|---------------|-----------------|
| Active members -Pension | 11.65% | 11.65% |
| City Contributions | | |
| Pension | 45.12% | 54.13% |
| Health Insurance Premium Benefit | 1.44% | 0.57% |

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, 2016, were:

| | PSRPS Fire | PSPRS Police |
|----------------------------------|---------------|-----------------|
| Pension contributions made | \$ 389,112 | \$ 528,799 |
| Health Insurance Premium Benefit | | |
| Annual OPEB cost | 12,830 | 5,615 |
| Contributions made | 12,830 | 5,615 |

Pension liability (asset)—At June 30, 2016, the City reported the following net pension liabilities (and asset):

| | Net pension liability (asset) |
|--------------|-------------------------------------|
| PSPRS Fire | \$ 4,881,531 |
| PSPRS Police | \$ 6,717,774 |

The net pension liabilities (and asset) were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future 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. The change in the City's net pension liability as a result of the statutory adjustments is not known.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

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

PSPRS

| | |
|----------------------------|---|
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.0%-8.0% |
| Inflation | 4.0% |
| Permanent benefit increase | Included |
| Mortality rate | RP-2000 mortality table (adjusted by 105% for both males and females) |

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, 2011.

The long-term expected rate of return on PSPRS pension plan investments was determined to be 7.85 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 geometric real rates of return for each major asset class are summarized in the following table:

| PSPRS Asset class | Target allocation | Long-term expected geometric real rate of return |
|------------------------|----------------------|---|
| 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 oppurtunities | 13% | 7.08% |
| Non-U.S. equity | 14% | 8.25% |
| U.S. equity | 16% | 6.23% |
| Total | <u>100%</u> | |

Pension discount rates—The discount rate used to measure the PSPRS total pension liabilities was 7.85 percent. The projection of cash flows used to determine the discount rates 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.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Changes in the net pension liability (asset):

| | Total pension liability (a) | Plan fiduciary net position (b) | Net pension liability (asset) (a) - (b) |
|--|--------------------------------------|--|--|
| PSPRS - Fire | | | |
| Balances at June 30, 2015 | \$ 7,955,464 | \$ 3,540,824 | \$ 4,414,640 |
| Changes for the year: | | | |
| Service cost | 156,604 | - | 156,604 |
| Interest on the total pension liability | 614,602 | - | 614,602 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience in the measurement of the pension liability | 25,042 | - | 25,042 |
| Changes of assumptions or other inputs | - | - | - |
| Contributions - employer | - | 308,280 | (308,280) |
| Contributions - employee | - | 94,304 | (94,304) |
| Net investment income | - | 125,014 | (125,014) |
| Benefit payments, including refunds of employee contributions | (408,889) | (408,889) | - |
| Administrative expense | - | (3,433) | 3,433 |
| Other changes | - | (194,808) | 194,808 |
| Net changes | 387,359 | (79,532) | 466,891 |
| Balances at June 30, 2016 | \$ 8,342,823 | \$ 3,461,292 | \$ 4,881,531 |
| | | | |
| | Total pension liability (a) | Plan fiduciary net position (b) | Net pension liability (asset) (a) - (b) |
| PSPRS - Police | | | |
| Balances at June 30, 2015 | \$ 9,655,027 | \$ 3,586,635 | \$ 6,068,392 |
| Changes for the year: | | | |
| Service cost | 171,814 | - | 171,814 |
| Interest on the total pension liability | 743,307 | - | 743,307 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience in the measurement of the pension liability | 387,628 | - | 387,628 |
| Changes of assumptions or other inputs | - | - | - |
| Contributions - employer | - | 349,032 | (349,032) |
| Contributions - employee | - | 120,405 | (120,405) |
| Net investment income | - | 132,063 | (132,063) |
| Benefit payments, including refunds of employee contributions | (544,101) | (544,101) | - |
| Administrative expense | - | (3,595) | 3,595 |
| Other changes | - | 55,462 | (55,462) |
| Net changes | 758,648 | 109,266 | 649,382 |
| Balances at June 30, 2016 | \$ 10,413,675 | \$ 3,695,901 | \$ 6,717,774 |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Sensitivity of the City's net pension liability (asset) to changes in the discount rate—The following table presents the City's net pension liabilities (assets) calculated using the discount rate of 7.85 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 (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

| The City's proportionate share of net pension liability | 1% Decrease | Current | 1% Increase |
|---|--------------|------------------------|--------------|
| | 6.85% | Discount Rate 7.85% | 8.85% |
| PSPRS - Fire | \$ 5,804,531 | \$ 4,881,531 | \$ 4,103,759 |
| PSPRS - Police | \$ 7,904,195 | \$ 6,717,774 | \$ 5,728,443 |

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, 2016, the City recognized the following pension expense:

| | Pension expense |
|----------------|--------------------|
| PSPRS - Fire | \$ 609,194 |
| PSPRS - Police | 707,295 |

Pension deferred outflows/inflows of resources - At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| PSPRS - Fire | | |
| Differences between expected and actual experience | \$ 20,567 | \$ 436,282 |
| Net Difference between projected and actual earnings on pension plan investments | 115,930 | 105,127 |
| Changes in assumptions | 499,122 | - |
| City contributions subsequent to the measurement date | 389,112 | - |
| | <u>\$ 1,024,731</u> | <u>\$ 541,409</u> |
| PSPRS - Police | | |
| Differences between expected and actual experience | \$ 305,175 | \$ 250,002 |
| Net Difference between projected and actual earnings on pension plan investments | 118,874 | 110,206 |
| Changes in assumptions | 728,188 | - |
| City contributions subsequent to the measurement date | 528,799 | - |
| | <u>\$ 1,681,036</u> | <u>\$ 360,208</u> |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

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 (or an increase in the net pension asset) in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | PSPRS Fire | PSRPS Police |
|---------------------|---------------|-----------------|
| Year ending June 30 | | |
| 2017 | \$ 15,477 | \$ 246,971 |
| 2018 | 15,477 | 246,971 |
| 2019 | 15,476 | 210,554 |
| 2020 | 45,114 | 87,533 |
| 2021 | 2,667 | - |
| | \$ 94,211 | \$ 792,029 |

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, 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.

Projections of benefits are based on (1) the plans as the City and plans' members understand them 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 designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

PSPRS and CORP—OPEB contribution requirements

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 22 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value; 20% corridor |
| Actuarial assumptions: | |
| Investment rate of return | 7.85% |
| Projected salary increases | 4%–8% for PSPRS |
| Wage growth | 4% for PSPRS |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Agent plan OPEB trend information—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

| Year ended June 30 | Annual OPEB cost | Percentage of annual cost contributed | Net OPEB obligation |
|--------------------------|------------------------|--|---------------------------|
| PSPRS Police | | | |
| 2016 | \$ 5,615 | 100% | \$ - |
| 2015 | 21,567 | 100% | - |
| 2014 | 18,558 | 100% | - |
| PSPRS Fire | | | |
| 2016 | \$ 12,830 | 100% | \$ - |
| 2015 | 20,460 | 100% | - |
| 2014 | 20,921 | 100% | - |

Agent plan OPEB funded status—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow.

| | PSPRS Police | PSPRS Fire |
|---|-----------------|---------------|
| Actuarial value of assets (a) | 280,598 | 183,874 |
| Actuarial accrued liability (b) | 293,613 | 253,029 |
| Unfunded actuarial accrued liability (funding excess) (b) – (a) | 13,015 | 69,155 |
| Funded ratio (a)/(b) | 95.57% | 72.67% |
| Annual covered payroll (c) | 976,906 | 862,394 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll(b) – (a) / (c) | 1.33% | 8.02% |

The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

| | |
|---------------------------------|--|
| PSPRS—OPEB funded status | |
| Actuarial valuation date | June 30, 2016 |
| 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%–8% for PSPRS and 4%–7.25% for CORP |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

C. Elected Official Retirement Plan

Plan description - Elected officials participate in the Elected Officials Retirement Plan (EORP). 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 and judges 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.

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 15 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled | 10 years, age 62 5 years, age 65 any years and age if disabled |
| Final average salary based on | Highest 36 consecutive months of last 10 years | Highest 60 consecutive months of last 10 years |
| 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 if service 20% with less than 5 years of service | 75% with 10 or more years of service 37.5% with 5 to 10 years if 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 | 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, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

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

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the City to contribute 23.5 percent of active EORP members' annual covered payroll. Also, statute required the City to contribute 12.15 percent to EORP of the annual covered payroll of elected officials who were ASRS members and 17.50 percent to EORP of the annual covered payroll of elected officials. In addition, statute required the City to contribute 23.5 percent of annual covered payroll of retired members who worked for the City in positions that an employee who contributes to the EORP would typically fill.

The City's contributions to the pension plan for the year ended June 30, 2016, were \$6,486. No OPEB contributions were required or made for the years ended June 30, 2015 and 2016. The City was not required to make and did not make OPEB contributions for fiscal years 2016 and 2015. For fiscal year 2014, the City's required and actual contribution was \$542.

During fiscal year 2016, the City paid for EORP pension contributions as follows: 100 percent from the general fund.

Pension liability - At June 30, 2016, 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 | \$ 240,920 |
| State's proportionate share of the EORP net pension liability associated with the City | <u>75,109</u> |
| Total | <u><u>\$ 316,029</u></u> |

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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, 2015. The City's proportion measured as of June 30, 2015, was .03 percent, which was a decrease of .008 percent from its proportion measured as of June 30, 2014.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2016, the City recognized pension expense for EORP of \$59,610 and revenue of \$20,209 for the City’s proportionate share of the State’s appropriation to EORP and the designate court fees. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the pensions from the following sources:

| EORP | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 385 | \$ 2,682 |
| Net Difference between projected and actual earnings on pension plan investments | 1,461 | - |
| Changes in assumptions | 40,368 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | - | 22,786 |
| City contributions subsequent to the measurement date | 6,486 | - |
| | \$ 48,700 | \$ 25,468 |

The \$6,486 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, 2017. 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:

Schedule of Net Deferred Outflows and Inflows (Five Years)

Year ending June 30

| | |
|------|-----------|
| 2016 | \$ 18,548 |
| 2017 | (3,023) |
| 2018 | 120 |
| 2019 | 1,101 |
| 2020 | - |
| | \$ 16,746 |

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

| | |
|----------------------------|------------------|
| EORP | |
| Actuarial valuation date | June 30, 2015 |
| Actuarial cost method | Entry age normal |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.25% |
| Inflation | 4.0% |
| Permanent benefit increase | Included |

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

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, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 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 geometric real rates of return for each major asset class are summarized in the following table:

| EORP Asset class | Target allocation | Long-term expected geometric real rate of return |
|------------------------|----------------------|---|
| 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 oppurtunities | 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, 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. 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 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

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 4.86 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 (3.86 percent) or 1 percentage point higher (5.86 percent) than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|-----------------------------|-------------|
| | 3.86% | 4.86% | 5.86% |
| The City's proportionate share of net pension liability | \$ 280,461 | \$ 240,920 | \$ 207,668 |

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

Volunteer Firemen's Relief and Pension Fund

The City has established the Volunteer Firemen's Relief and Pension Fund (a defined contribution plan) to provide pensions for its qualified volunteer firemen. The Fund covers only the volunteer firemen and is established solely upon the provisions for such pension and relief funds in the Arizona Revised Statutes. Sections therein give discretionary powers to the Board of Trustees in administering payment and/or non-payment of benefits to qualified retired or disabled volunteer firemen. No vested interests exist in any of the revenues of the fund other than the employee's right to his own contributions. Reserves for pensions, therefore, have not been established based on actuarial tables as the amounts are not vested. The City contributed \$75 to the pension fund during the year ended June 30, 2016, which was 5% of the covered and total payroll of \$1,500. The volunteer firemen's required and actual contributions amounted to \$75, which was 5% of covered payroll. These contributions met the funding requirements established by state statutes.

Note 11 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, 2016 \$2,951 in 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.

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, 2016. 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 i.e. \$184,663. As long as the City maintains its insurance coverage through the Pool it will have this contingent liability.

City of Globe, Arizona
Notes to Financial Statements
June 30, 2016

Note 12 Restatement of Fund Balances/Net Position

During 2016, the City evaluated its compensated absences liability and determined that the liabilities were not current and therefore should not have been recognized in the governmental funds financial statements. As a result, the beginning balances of the governmental funds were restated to reflect the change.

The City also determined that certain deferred outflows relating to pensions were not reported in the prior year governmental activities, enterprise funds and business-type activities financial statements. These net positions have been restated to correct these errors.

| | <u>General Fund</u> | <u>Nonmajor governmental</u> | <u>Governmental Activities Net Position</u> |
|---|---------------------|----------------------------------|---|
| Governmental funds/Governmental Activities | | | |
| Fund Balance, net position, June 30, 2015, as previously reported | \$ 4,335,027 | \$ 12,364 | \$ (3,832,063) |
| Adjustment for unrecorded pension deferred outflows | | | 799,324 |
| Adjustments to reduce compensated absences liability | 465,062 | 1,843 | - |
| Fund Balance, net position, June 30, 2015, as restated | <u>\$ 4,800,089</u> | <u>\$ 14,207</u> | <u>\$ (3,032,739)</u> |

| | <u>Water</u> | <u>Sewer</u> | <u>Business-type Activities Net Position</u> |
|---|---------------------|---------------------|--|
| Enterprise Funds/Business-type Activities | | | |
| Net position, June 30, 2015, as previously reported | \$ 4,515,594 | \$ 4,420,556 | \$ 8,936,150 |
| Correction of prior year error in accrued liabilities relating to loans | 157,388 | | 157,388 |
| Adjustment for unrecorded pension deferred outflows | 41,927 | 24,622 | 66,549 |
| Fund Balance, net position, June 30, 2015, as restated | <u>\$ 4,714,909</u> | <u>\$ 4,445,178</u> | <u>\$ 9,160,087</u> |

Required Supplementary Information

City of Globe, Arizona
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | Actual | Variance with |
|--|-------------------------|---------------------|---------------------|----------------------------|
| | <u>Original</u> | <u>Final</u> | (Budgetary | Final Budget |
| | | | Basis) | Positive (Negative) |
| Revenues: | | | | |
| State Sales Tax | \$ 719,555 | \$ 719,555 | \$ 708,135 | \$ (11,420) |
| State Revenue Sharing | 906,852 | 906,852 | 906,852 | - |
| Property Tax | 490,000 | 490,000 | 491,374 | 1,374 |
| Vehicle Lieu Tax | 462,693 | 462,693 | 450,999 | (11,694) |
| City Sales Tax | 3,755,000 | 3,755,000 | 3,637,666 | (117,334) |
| Bed Tax | 100,000 | 100,000 | 213,260 | 113,260 |
| Utility Franchise | 400,000 | 400,000 | 276,683 | (123,317) |
| Business Licenses | 250,000 | 250,000 | 466,640 | 216,640 |
| Licenses, Permits and Other | 170,600 | 170,600 | 402,054 | 231,454 |
| Fines and Forfeitures | 79,500 | 79,500 | 119,367 | 39,867 |
| Sanitation Fees | 615,000 | 615,000 | 610,058 | (4,942) |
| Museum Fees and Product Sales | 80,000 | 80,000 | 74,410 | (5,590) |
| Interest Income | 5,000 | 5,000 | - | (5,000) |
| Gain on Investments | - | - | 13,683 | 13,683 |
| Donations | 4,000 | 4,000 | 6,455 | 2,455 |
| Total Revenues | <u>8,038,200</u> | <u>8,038,200</u> | <u>8,377,636</u> | <u>339,436</u> |
| Expenditures: | | | | |
| Mayor and Council | 414,980 | 414,980 | 391,765 | 23,215 |
| Contingency | 3,375,638 | 3,375,638 | - | 3,375,638 |
| Community Organizations | 100,000 | 100,000 | 108,125 | (8,125) |
| Administration | 819,527 | 819,527 | 1,045,570 | (226,043) |
| Fire | 1,905,519 | 1,905,519 | 2,245,256 | (339,737) |
| Police | 2,939,390 | 2,939,390 | 2,775,842 | 163,548 |
| Sanitation | 608,500 | 608,500 | 542,049 | 66,451 |
| Public Works | 845,211 | 850,211 | 900,056 | (49,845) |
| Magistrate | 160,236 | 160,236 | 172,716 | (12,480) |
| Museum | 125,769 | 154,470 | 182,387 | (27,917) |
| Parks and Recreation | - | - | 50 | (50) |
| Engineering | - | - | 5,093 | (5,093) |
| Fleet Maintenance | 78,341 | 82,327 | 100,167 | (17,840) |
| Capital Outlay | 57,320 | 63,434 | 60,796 | 2,638 |
| Debt Service: | | | | - |
| Principal | - | - | 9,562 | (9,562) |
| Interest | - | - | - | - |
| Total Expenditures | <u>11,430,431</u> | <u>11,474,232</u> | <u>8,539,434</u> | <u>2,934,798</u> |
| Excess of Revenues | | | | |
| (Under) Expenditures | (3,392,231) | (3,436,032) | (161,798) | 3,274,234 |
| Other Financing Sources (Uses) | | | | |
| Transfer to other Funds | - | - | (57,582) | (57,582) |
| Proceeds of Long Term Debt Obligations | - | - | 53,107 | 53,107 |
| Net Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>(4,475)</u> | <u>(4,475)</u> |
| Net change in fund balances | (3,392,231) | (3,436,032) | (166,273) | 3,269,759 |
| Fund Balance, Beginning | 4,800,089 | 4,800,089 | 4,800,089 | - |
| Fund Balance, Ending | <u>\$ 1,407,858</u> | <u>\$ 1,364,057</u> | <u>\$ 4,633,816</u> | <u>\$ 3,269,759</u> |

City of Globe, Arizona
Budgetary Comparison Schedule
HURF Fund
For the Year Ended June 30, 2016

| | <u>Budget Amounts</u> | | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance With Final Budget Positive (Negative)</u> |
|-------------------------|-----------------------|----------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Highway Users Tax | \$ 752,692 | \$ 752,692 | \$ 715,743 | \$ (36,949) |
| Total Revenues | <u>752,692</u> | <u>752,692</u> | <u>715,743</u> | <u>(36,949)</u> |
| Expenditures: | | | | |
| Streets | 752,692 | 752,692 | 715,743 | 36,949 |
| Total Expenditures | <u>752,692</u> | <u>752,692</u> | <u>715,743</u> | <u>36,949</u> |
| Excess of Revenues | | | | |
| (Under) Expenditures | - | - | - | - |
| Fund Balance, Beginning | - | - | - | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Globe, Arizona
Budgetary Comparison Schedule
Grant Fund
For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts (Budgetary Basis)</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Grant Revenue | \$ 2,502,000 | \$ 2,502,000 | \$ 137,097 | \$ (2,364,903) |
| Total Revenues | <u>2,502,000</u> | <u>2,502,000</u> | <u>137,097</u> | <u>(2,364,903)</u> |
| Expenditures: | | | | |
| Fire | - | - | 6,000 | (6,000) |
| Police | - | - | 17,759 | (17,759) |
| Public Works | - | - | 108,924 | (108,924) |
| Magistrate | - | - | 750 | (750) |
| Library | - | - | 3,664 | (3,664) |
| Other Grants - Federal | 2,502,000 | 2,502,000 | - | 2,502,000 |
| Total Expenditures | <u>2,502,000</u> | <u>2,502,000</u> | <u>137,097</u> | <u>2,364,903</u> |
| Excess of Revenues Over (Under) Expenditures | - | - | - | - |
| Fund Balance, Beginning | - | - | - | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Globe, Arizona
Required supplementary information
Schedule of the City's Proportionate Share of Net Position Liability
Cost-Sharing Plans
For the Year Ended June 30, 2016

Arizona State Retirement System

| | 2016 (2015) | 2015 (2014) | 2014 through 2007 |
|---|------------------------|------------------------|----------------------------------|
| City's proportion of net pension liability | 0.02253% | 0.02373% | Information not available |
| City's proportion share of net pension liability | \$ 3,509,498 | \$ 3,511,274 | |
| City's covered-employee payroll | 2,004,863 | 1,928,484 | |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 175.05% | 182.07% | |
| Plan fiduciary net position as a percentage of the total pension liability | 68.35% | 69.49% | |

Elected Officials Retirement Plan

| | 2016 (2015) | 2015 (2014) | 2014 through 2007 |
|---|------------------------|------------------------|----------------------------------|
| City's proportion of net pension liability | 0.03083% | 0.03834% | Information not available |
| City's proportion share of net pension liability | \$ 240,920 | \$ 257,089 | |
| State's proportionate share of the net pension liability associated with the City | 75,109 | 78,826 | |
| Total City's net pension liability | \$ 316,029 | \$ 335,915 | |
| City's covered-employee payroll | \$ 33,054 | \$ 27,600 | |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 728.87% | 931.48% | |
| Plan fiduciary net position as a percentage of the total pension liability | 28.32% | 31.91% | |

City of Globe, Arizona
Required supplementary information
Schedule of the Changes in the City's Net Position Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

Public Safety Personnel Retirement System - Police

| | 2016 (2015) | 2015 (2014) | 2014 through 2007 |
|--|------------------------|------------------------|----------------------------------|
| Total pension liability | | | Information not available |
| Service cost | \$ 171,814 | \$ 202,049 | |
| Interest on total pension liability | 743,307 | 635,715 | |
| Changes in benefit terms | - | 264,241 | |
| Difference between expected and actual experience in the measurement of the pension liability | 387,628 | (429,362) | |
| Changes in assumptions or other inputs | - | 1,250,618 | |
| Benefit payments, including refunds of employee contributions | (544,101) | (530,972) | |
| Net change in pension liability | 758,648 | 1,392,289 | |
| Total pension liability - beginning | 9,655,027 | 8,262,738 | |
| Total pension liability - ending (a) | <u>\$ 10,413,675</u> | <u>\$ 9,655,027</u> | |
| Plan fiduciary net position | | | |
| Contributions - employer | 349,032 | 282,220 | |
| Contributions - employee | 120,405 | 108,788 | |
| Net investment income | 132,063 | 445,624 | |
| Benefit payments, including refunds of employee contributions | (544,101) | (530,972) | |
| Pension plan administrative expense | (3,595) | | |
| Other changes | 55,462 | (251,795) | |
| Net change in plan fiduciary net position | 109,266 | 53,865 | |
| Total pension liability - beginning | 3,586,635 | 3,532,770 | |
| Total pension liability - ending (b) | <u>3,695,901</u> | <u>3,586,635</u> | |
| City's net pension liability - ending (a) - (b) | <u>\$ 6,717,774</u> | <u>\$ 6,068,392</u> | |
| Plan fiduciary net position as a percentage of the total pension liability | 35.49% | 37.15% | |
| Covered payroll | 1,011,843 | 1,280,174 | |
| County's net pension liability as a percentage of covered payroll | 663.91% | 474.03% | |

City of Globe, Arizona
Required supplementary information
Schedule of the Changes in the City's Net Position Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2016

Public Safety Personnel Retirement System - Fire

| | 2016 (2015) | 2015 (2014) | 2014 through 2007 |
|--|------------------------|------------------------|----------------------------------|
| Total pension liability | | | Information not available |
| Service cost | \$ 156,604 | \$ 170,156 | |
| Interest on total pension liability | 614,602 | 568,739 | |
| Changes in benefit terms | - | 157,833 | |
| Difference between expected and actual experience in the measurement of the pension liability | 25,042 | (673,178) | |
| Changes in assumptions or other inputs | - | 770,143 | |
| Benefit payments, including refunds of employee contributions | (408,889) | (396,467) | |
| Net change in pension liability | 387,359 | 597,226 | |
| Total pension liability - beginning | 7,955,464 | 7,358,238 | |
| Total pension liability - ending (a) | <u>\$ 8,342,823</u> | <u>\$ 7,955,464</u> | |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 308,280 | \$ 302,193 | |
| Contributions - employee | 94,304 | 90,601 | |
| Net investment income | 125,014 | 425,082 | |
| Benefit payments, including refunds of employee contributions | (408,889) | (396,467) | |
| Pension plan administrative expense | (3,433) | | |
| Other changes | (194,808) | (130,977) | |
| Net change in plan fiduciary net position | (79,532) | 290,432 | |
| Total pension liability - beginning | 3,540,824 | 3,250,392 | |
| Total pension liability - ending (b) | <u>3,461,292</u> | <u>3,540,824</u> | |
| City's net pension liability - ending (a) - (b) | \$ 4,881,531 | \$ 4,414,640 | |
| Plan fiduciary net position as a percentage of the total pension liability | 41.49% | 44.51% | |
| Covered payroll | 831,084 | 908,399 | |
| County's net pension liability as a percentage of covered payroll | 587.37% | 485.98% | |

City of Globe, Arizona
Required supplementary information
Schedule of City Pension Contributions
June 30, 2016

Arizona State Retirement System

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013 through 2007</u> |
|--|---------------------|---------------------|--------------------|----------------------------------|
| Statutorily determined contribution | \$ 219,126 | \$ 221,931 | \$ 228,886 | Information not available |
| City's contributions in relation to the statutorily determined contribution | <u>219,126</u> | <u>221,931</u> | <u>228,886</u> | |
| City's contribution (deficiency) excess | <u>-</u> | <u>-</u> | <u>-</u> | |
| City's covered-employee payroll | <u>\$ 2,019,599</u> | <u>\$ 2,037,931</u> | <u>\$2,025,540</u> | |
| City's contributions as a percentage of covered payroll | 10.85% | 10.89% | 11.30% | |

Elected Officials Retirement Plan

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013 through 2007</u> |
|--|------------------|------------------|------------------|----------------------------------|
| Statutorily determined contribution | \$ 6,486 | \$ 6,486 | \$ 8,169 | Information not available |
| City's contributions in relation to the statutorily determined contribution | <u>6,486</u> | <u>6,486</u> | <u>8,169</u> | |
| City's contribution deficiency (excess) | <u>-</u> | <u>-</u> | <u>-</u> | |
| City's covered-employee payroll | <u>\$ 33,054</u> | <u>\$ 27,600</u> | <u>\$ 34,762</u> | |
| City's contributions as a percentage of covered payroll | 19.62% | 23.50% | 23.50% | |

Public Safety Personnel Retirement System - Police

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013 through 2007</u> |
|--|-------------------|---------------------|-------------------|----------------------------------|
| Statutorily determined contribution | \$ 528,799 | \$ 347,163 | \$ 282,220 | Information not available |
| City's contributions in relation to the statutorily determined contribution | <u>528,799</u> | <u>347,163</u> | <u>282,220</u> | |
| City's contribution (deficiency) excess | <u>-</u> | <u>-</u> | <u>-</u> | |
| City's covered-employee payroll | <u>\$ 976,906</u> | <u>\$ 1,011,843</u> | <u>\$ 969,495</u> | |
| City's contributions as a percentage of covered payroll | 54.13% | 34.31% | 29.11% | |

Public Safety Personnel Retirement System - Fire

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013 through 2007</u> |
|--|-------------------|-------------------|-------------------|----------------------------------|
| Statutorily determined contribution | \$ 389,112 | \$ 296,780 | \$ 289,943 | Information not available |
| City's contributions in relation to the statutorily determined contribution | <u>389,112</u> | <u>296,780</u> | <u>289,943</u> | |
| City's contribution (deficiency) excess | <u>-</u> | <u>-</u> | <u>-</u> | |
| City's covered-employee payroll | <u>\$ 862,394</u> | <u>\$ 831,084</u> | <u>\$ 867,314</u> | |
| City's contributions as a percentage of covered payroll | 45.12% | 35.71% | 33.43% | |

City of Globe, Arizona
Required supplementary information
Notes to Pension Plan Schedules
June 30, 2016

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 2014 actuarial valuation | 23 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 the actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85% |
| Projected salary increases | In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%–8.5% to 4.0%–8.0%. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS |
| Wage growth | In 2014 the 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 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, 2016

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL (Funding Excess) as Percentage of Covered Payroll ([b-a]/c) |
|--------------------------------|--|--|--|--------------------------|-------------------------------------|--|
| PSPRS - Police | | | | | | |
| 6/30/2016 | 280,598 | 293,613 | 13,015 | 95.6% | 976,906 | 1.3% |
| 6/30/2015 | 277,170 | 299,796 | 22,626 | 92.5% | 1,011,843 | 2.2% |
| 6/30/2014 | 257,069 | 274,293 | 17,224 | 93.7% | 910,117 | 1.9% |
| PSPRS - Fire | | | | | | |
| 6/30/2016 | 183,874 | 253,029 | 69,155 | 72.7% | 862,394 | 8.0% |
| 6/30/2015 | 168,187 | 268,488 | 100,301 | 62.6% | 831,084 | 12.1% |
| 6/30/2014 | 155,938 | 292,182 | 136,244 | 53.4% | 823,922 | 16.5% |

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 plans recorded both pension and health insurance premium contributions in the same pension fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's pension fund to the new health insurance fund.

Other Supplemental Information

City of Globe, Arizona
Budgetary Comparison Schedule
Transportation Excise Tax Fund
For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|-------------------------|-----------------|---|---|
| | Original | Final | | |
| Revenues: | | | | |
| Transportation Excise Tax | \$ 348,000 | \$ 348,000 | \$ 409,713 | \$ 61,713 |
| Total Revenues | <u>348,000</u> | <u>348,000</u> | <u>409,713</u> | <u>61,713</u> |
| Expenditures: | | | | |
| Streets | - | - | 45,538 | (45,538) |
| Capital Outlay | 348,000 | 348,000 | 59,339 | 288,661 |
| Total Expenditures | <u>348,000</u> | <u>348,000</u> | <u>104,877</u> | <u>(243,123)</u> |
| Excess of Revenues Over (Under) Expenditures | <u>-</u> | <u>-</u> | <u>304,836</u> | <u>304,836</u> |
| Fund Balance, Beginning | <u>9,291</u> | <u>9,291</u> | <u>9,291</u> | <u>-</u> |
| Fund Balance, Ending | <u>\$ 9,291</u> | <u>\$ 9,291</u> | <u>\$ 314,127</u> | <u>\$ 304,836</u> |

City of Globe, Arizona
Budgetary Comparison Schedule
Active Adult Center Fund
For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Positive (Negative) |
|--|-------------------------|----------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Grant Revenue | \$ 70,435 | \$ 70,435 | \$ 73,305 | \$ 2,870 |
| Licenses, Permits and Other | 29,565 | 29,565 | 50,606 | 21,041 |
| Total Revenue | <u>100,000</u> | <u>100,000</u> | <u>123,911</u> | <u>23,911</u> |
| Expenditures: | | | | |
| Active Adult Center | 142,137 | 142,137 | 167,882 | (25,745) |
| Capital Outlay | - | - | - | - |
| Total Expenditures | <u>142,137</u> | <u>142,137</u> | <u>167,882</u> | <u>25,745</u> |
| Excess of Revenues (Under) Expenditures | (42,137) | (42,137) | (43,971) | (1,834) |
| Other Financing Sources (Uses) | | | | |
| Transfer from general fund | 41,497 | 41,497 | 43,331 | 1,834 |
| Net Other Financing Sources (Uses): | <u>41,497</u> | <u>41,497</u> | <u>43,331</u> | <u>1,834</u> |
| Net change in fund balance | (640) | (640) | (640) | - |
| Fund Balance, beginning | <u>640</u> | <u>640</u> | <u>640</u> | <u>-</u> |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Globe, Arizona
Budgetary Comparison Schedule
Library Fund
For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual Amounts (Budgetary Basis) | Variance With Final Budget Positive (Negative) |
|---|-------------------------|----------------|---|---|
| | Original | Final | | |
| Revenues: | | | | |
| Licenses, Permits and Other | \$ 10,160 | \$ 10,160 | \$ 9,240 | \$ (920) |
| County Library Property Tax | 113,600 | 113,600 | 113,600 | - |
| Total Revenue | <u>123,760</u> | <u>123,760</u> | <u>122,840</u> | <u>(920)</u> |
| Expenditures: | | | | |
| Library | 182,816 | 182,816 | 141,367 | 41,449 |
| Total Expenditures | <u>182,816</u> | <u>182,816</u> | <u>141,367</u> | <u>41,449</u> |
| Excess of Revenues Over (Under) Expenditures | (59,056) | (59,056) | (18,527) | 40,529 |
| Other Financing Sources (Uses) | | | | |
| Transfer from general fund | 54,780 | 54,780 | 14,251 | (40,529) |
| Net Other Financing Sources (Uses) | <u>54,780</u> | <u>54,780</u> | <u>14,251</u> | <u>(40,529)</u> |
| Net change in fund balance | (4,276) | (4,276) | (4,276) | - |
| Fund Balance, Beginning | 4,276 | 4,276 | 4,276 | - |
| Fund Balance, Ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Globe, Arizona
Budgetary Comparison Schedule
Water Utility Fund
For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Variance With |
|--|------------------|------------------|------------------------------|-------------------------------------|
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (negative) |
| Operating Revenues: | | | | |
| Charges for Services | \$ 2,015,400 | \$ 2,015,400 | \$ 2,144,511 | \$ 129,111 |
| Taps, Extensions and Permits | 37,500 | 37,500 | 38,349 | 849 |
| Penalties | 60,000 | 60,000 | 75,802 | 15,802 |
| Miscellaneous | 15,500 | 15,500 | 8,618 | (6,882) |
| Total Operating Revenues | 2,128,400 | 2,128,400 | 2,267,280 | 138,880 |
| Operating Expenses: | | | | |
| Personal Services | 783,004 | 783,004 | 638,104 | 144,900 |
| Telephone and Utilities | 335,119 | 335,119 | 370,717 | (35,598) |
| Repairs and Maintenance | 533,100 | 533,100 | 498,770 | 34,330 |
| Supplies | 212,100 | 212,100 | 229,117 | (17,017) |
| Miscellaneous | - | - | 24,230 | (24,230) |
| Depreciation | - | - | 415,540 | (415,540) |
| Bad Debt Expense | 5,500 | 5,500 | 19,150 | (13,650) |
| Insurance | 25,000 | 25,000 | 40,576 | (15,576) |
| Total Operating Expenses | 1,893,823 | 1,893,823 | 2,236,204 | (342,381) |
| Operating Income (Loss) | 234,577 | 234,577 | 31,076 | 265,653 |
| Non-Operating Revenues (Expenses): | | | | |
| Net Activities from Water Revenue Bonds | 174,900 | 174,900 | - | (174,900) |
| Proceeds from lawsuit settlement | | | 431,610 | |
| Interest Expense | (179,906) | (179,906) | (171,364) | 8,542 |
| Total Non-Operating Revenues (Expenses) | (5,006) | (5,006) | 260,246 | (166,358) |
| Changes in Net Position | 229,571 | 229,571 | 291,322 | 61,751 |
| Total Net Position - Beginning | 4,515,594 | 4,515,594 | 4,714,909 | (199,315) |
| Total Net Position - Ending | \$ 4,745,165 | \$ 4,745,165 | \$ 5,006,231 | \$ 261,066 |

City of Globe, Arizona
Budgetary Comparison Schedule
Sewer Utility Fund
For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Variance With |
|--------------------------------|----------------------------|----------------------------|--|---|
| | Original | Final | Amounts (Budgetary Basis) | Final Budget Positive (negative) |
| Operating Revenues: | | | | |
| Charges for Services | \$ 1,000,000 | \$ 1,000,000 | \$ 978,688 | \$ (21,312) |
| Taps, Extensions and Permits | 5,000 | 5,000 | 2,040 | (2,960) |
| Miscellaneous | 1,000 | 1,000 | 2,000 | 1,000 |
| Total Operating Revenues | <u>1,006,000</u> | <u>1,006,000</u> | <u>982,728</u> | <u>(23,272)</u> |
| Operating Expenses: | | | | |
| Personal Services | 326,007 | 326,007 | 337,262 | (11,255) |
| Telephone and Utilities | 100,890 | 100,890 | 127,364 | (26,474) |
| Repairs and Maintenance | 167,500 | 167,500 | 201,126 | (33,626) |
| Supplies | 224,950 | 224,950 | 271,485 | (46,535) |
| Miscellaneous | 231,750 | 231,750 | 37,419 | 194,331 |
| Depreciation | - | - | 250,464 | (250,464) |
| Bad Debt Expense | 1,500 | 1,500 | - | 1,500 |
| Insurance | 10,000 | 10,000 | 12,301 | (2,301) |
| Total Operating Expenses | <u>1,062,597</u> | <u>1,062,597</u> | <u>1,237,421</u> | <u>(174,824)</u> |
| Changes in Net Position | <u>(56,597)</u> | <u>(56,597)</u> | <u>(254,693)</u> | <u>(198,096)</u> |
| Total Net Position - Beginning | <u>4,420,555</u> | <u>4,420,555</u> | <u>4,445,178</u> | <u>24,623</u> |
| Total Net Position - Ending | <u><u>\$ 4,363,958</u></u> | <u><u>\$ 4,363,958</u></u> | <u><u>\$ 4,190,485</u></u> | <u><u>\$ (173,473)</u></u> |

City of Globe, Arizona
Non-Major Governmental Funds
Combining Balance Sheet
For the Year Ended June 30, 2016

| | Active Adult Center | Transportation Excise Tax | Library | Total |
|--|---------------------------|---------------------------------|-----------------|-------------------|
| Assets | | | | |
| Cash and investments | \$ - | \$ 280,827 | 35 | \$ 280,862 |
| Other Receivables | - | - | - | - |
| Due from Other Funds | - | - | 1,542 | 1,542 |
| Due from Other Governments | 26,419 | 35,608 | - | 62,027 |
| Total Assets | <u>\$ 26,419</u> | <u>\$ 316,435</u> | <u>\$ 1,577</u> | <u>\$ 344,431</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts Payable | 5,705 | 2,308 | 1,512 | 9,525 |
| Due to the General Fund | 20,714 | - | - | 20,714 |
| Accrued Expenses and Other Liabilities | - | - | 65 | 65 |
| Total Liabilities | <u>26,419</u> | <u>2,308</u> | <u>1,577</u> | <u>30,304</u> |
| Fund Balances: | | | | |
| Restricted: | | | | |
| Street Improvements | - | 314,127 | - | 314,127 |
| Library Improvements | - | - | - | - |
| Unassigned | - | - | - | - |
| Total Fund Balances | <u>-</u> | <u>314,127</u> | <u>-</u> | <u>314,127</u> |
| Total Fund Balance and Liabilities | <u>\$ 26,419</u> | <u>\$ 316,435</u> | <u>\$ 1,577</u> | <u>\$ 344,431</u> |

City of Globe, Arizona
Non-Major Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2016

| | Active Adult Center | Transportation Excise Tax | Library | Total Governmental Funds |
|---|------------------------------------|--|----------------|---|
| Revenues: | | | | |
| Transportation Excise Tax | \$ - | \$ 409,713 | \$ - | \$ 409,713 |
| Grant Revenue | 73,305 | - | - | 73,305 |
| Licenses, Permits and Other | 50,606 | - | 9,240 | 59,846 |
| County Library Property Tax | - | - | 113,600 | 113,600 |
| Total Revenues | <u>123,911</u> | <u>409,713</u> | <u>122,840</u> | <u>656,464</u> |
| Expenditures: | | | | |
| Streets | - | 45,538 | - | 45,538 |
| Library | - | - | 141,367 | 141,367 |
| Active Adult Center | 167,882 | - | - | 167,882 |
| Capital Outlay | - | 59,339 | - | 59,339 |
| Total Expenditures | <u>167,882</u> | <u>104,877</u> | <u>141,367</u> | <u>414,126</u> |
| Excess of Revenues Over (Under) Expenses | (43,971) | 304,836 | (18,527) | 242,338 |
| Other Financing Sources (uses): | | | | |
| Transfer from General fund | 43,331 | - | 14,251 | 57,582 |
| Net change in fund balances | (640) | 304,836 | (4,276) | 299,920 |
| Fund Balances, Beginning (as restated) | 640 | 9,291 | 4,276 | 14,207 |
| Fund Balances, Ending | <u>\$ -</u> | <u>\$ 314,127</u> | <u>\$ -</u> | <u>\$ 314,127</u> |

Single Audit Section

Independent Auditor's 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
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, 2016, 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 February 24, 2017.

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.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 as items **2016-001**, **2016-002**, and **2016-003** that we consider to be material weaknesses.

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.



Gilbert, Arizona
February 24, 2017

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the City Council
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, 2016. 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 the requirements of laws, regulations, contracts and grants 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.

Basis for Qualified Opinion on Capitalization Grants for Clean Water – State Revolving Funds

As described in the accompanying schedule of findings and questioned costs, the City of Globe, Arizona did not comply with requirements regarding CFDA 66.468 Capitalization Grants for Clean Water – State Revolving Funds as described in finding **2016-007** for Reporting. Compliance with such requirements is necessary, in our opinion, for the City of Globe, Arizona to comply with the requirements applicable to that program.

Qualified Opinion on Capitalization Grants for Clean Water – State Revolving Funds

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 Capitalization Grants for Clean Water – State Revolving Funds for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items **2016-004**, **2016-005** and **2016-006**. Our opinion on each major federal program is not modified with respect to these matters.

City of Globe, Arizona's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items **2016-004**, **2016-005** and **2016-006**, that we consider to be material weaknesses.

City of Globe, Arizona's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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.

Smsola + Butler, CPAs, PLLC

Gilbert, Arizona
February 24, 2017

City of Globe, Arizona
Schedule of Expenditures of Federal Awards
June 30, 2016

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through/ Contract Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|---------------------|
| <u>U.S. Department of Housing and Urban Development</u> | | | |
| FY08 Economic Development Initiative-Special Project | 14.251 | EDI- B-06-Sp-Az-0058 | \$ 90,080 |
| <u>U.S. Department of Transportation</u> | | | |
| Governor's Office of Highway Safety | | | |
| State and Community Highway Safety | 20.600 | 2016-PT-063 2016-PT-014 2016-AL-011 2015-PT-016 2015-AI-008 | 12,834 |
| National Priority Safety Programs | 20.616 | 2015-405d-003 | 4,924 |
| Total U.S. Department of Transportation | | | <u>17,758</u> |
| <u>Institute of Museum and Library Services</u> | | | |
| Library Services and Technology Act (LSTA) | | | |
| Arizona State Library, Archives and Public Records | | | |
| Take the Lead and Read Grant | 45.310 | N/A | 1,664 |
| <u>Environmental Protection Agency</u> | | | |
| Water Infrastructure Finance Authority of Arizona | | | |
| Capitalization Grants for Clean Water | | | |
| State Revolving Funds | 66.468 | 920249-14 | 3,976,694 |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Administration of Aging | | | |
| Pinal-Gila Council for Senior Citizens | | | |
| Special Programs for the Aging_ Title III, Part C | | | |
| Nutrition Services | 93.045 | 014-0248 | 73,305 |
| Total Federal Awards | | | <u>\$ 4,159,501</u> |

See Accompanying Notes to Schedule.

City of Globe, Arizona
Notes to Schedule of Expenditures of Federal Awards
June 30, 2016

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Government Services Department of the City of Globe, Arizona and is presented on the modified accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2016 Catalog of Federal Domestic Assistance.

Note 3 - Subrecipients

The City did not provide any federal awards to subrecipients during the year ended June 30, 2016.

Note 4 - Capital Advances (Forgivable Loans)

This schedule includes federal expenditures incurred in a prior year for which there is an outstanding loan balance (Capital Advances). The Capitalization Grants for Clean Water – State Revolving Fund, 66.468, has continuing compliance requirements. The full outstanding balance for each capital advance is considered federal awards expended and requires disclosure on this schedule; the outstanding balance is included in determining Type A programs.

| | | |
|---|----|-------------------------|
| Federal WIFA Loans, as of June 30, 2015 | \$ | 1,041,338 |
| Draws during 2016 Fiscal Year | | 3,034,880 |
| Principal Payments during 2016 Fiscal Year | | <u>(99,524)</u> |
| Federal WIFA Loans, as of June 30, 2016 | \$ | <u><u>3,976,694</u></u> |
| | | |
| Forgivable portion of Federal WIFA Loan | \$ | 3,000,000 |
| Interest Bearing portion of Federal WIFA Loan | | 976,694 |

**City of Globe, Arizona
Schedule of Findings and Questioned Costs
June 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|---|------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified | No |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|---|-----------|
| Internal control over major programs | |
| Material weaknesses identified | Yes |
| Significant deficiencies identified | No |
| Type of auditor's report issued on compliance for major programs | Qualified |
| Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? | Yes |
| Identification of major programs | |

Name of Federal Program or Cluster

CFDA number

| | |
|---|-----------|
| Capitalization Grants for Clean Water State Revolving Funds | 66.468 |
| Dollar threshold used to distinguish between type A and type B Programs | \$750,000 |
| Auditee qualified as low-risk auditee? | No |

City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

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: 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.

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.

Auditor's Recommendations: The City's Finance Department should evaluate and implement closing procedures that establish clear deadlines for recording transactions and reconciling accounts to the general ledger and subsidiary ledgers. The Finance Department should also evaluate current procedures to ensure that all accounts are reconciled and supported.

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

- Staff 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.
- Management has taken measures to increase staffing in the Finance Department, which will enable staff to ensure that all accounts are reconciled and have supporting documentation.
- Staff will make it a priority to maintain monthly reconciliations in order to maintain accuracy and attention to detail.

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.

City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Cause and Effect: A detailed risk assessment has not been performed to determine which duties can be segregated and/or other controls implemented. As a result, adequate policies have not been implemented to help ensure that duties are segregated, to the fullest extent possible, that minimize control situations where individuals have the opportunity to misappropriate assets.

Auditor's Recommendations: The City Council and management should be mindful that the concentration of incompatible duties with a limited number of personnel could create control situations that would allow personnel to misappropriate assets. The City should perform a formal risk assessment to evaluate and to determine the risk level and, based on these identified risks, implement additional policies and procedures to appropriately segregate duties as necessary.

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

- Management has taken measures to increase staffing in the Finance Department to address internal control issues and eliminate the concentration of duties that would allow personnel to misappropriate assets.
- Staff intends to 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.
- Adoption of administrative policies and procedures to be implemented will be the final piece to be completed. Staff believes this task is of such importance that it needs to be researched thoroughly to put into place best practices.

2016-003 – Capital Assets – (Material Weakness)

Criteria: To help ensure the accuracy of financial records, capital assets should be identified and reconciled to physical inventories. In addition, a listing of assets and the related depreciation amounts should be kept current to ensure that depreciation is accurately calculated.

Condition: 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.

Cause and Effect: The City does not have adequate policies and procedures to ensure that the capital assets were properly stated. Physical inventories of capital assets have not been completed and the supporting capital asset records do not reconcile to the general ledger.

Auditor's Recommendations: The City should complete a physical inventory of its capital assets and reconcile the inventory records to the capital assets subsidiary schedules. Further, the City should implement policies and procedures to ensure that physical inventories are completed periodically and reconcile the results to the general ledger.

City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Management's Response: To improve the City's reconciliation of capital assets, the City will:

- Staff will be directed to complete a physical inventory of the capital assets in each City department.
- Once physical inventories have been completed, staff will reconcile the inventory records to the capital assets subsidiary schedules.
- It is staff's intention to add policies and procedures, for adoption by Council, which will address the need to conduct regular periodical physical inventories so reconciliations may be entered into the general ledger.

**City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

Section III – Federal Award Findings and Questioned Costs

2016-004 – General Ledger Maintenance and Reconciliation

Federal program information:

| | |
|--------------------------------------|--|
| Funding agency: | Environmental Protection Agency |
| Title: | Capitalization Grants for Clean Water – State Revolving Funds |
| CFDA number: | 66.468 |
| Award year and number: | 2014; 920249-14 |
| Pass-through entity: (if applicable) | Water Infrastructure Finance Authority of Arizona |

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: 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.

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.

Auditor's Recommendations: The City's Finance Department should evaluate implement closing procedures that establish clear deadlines for recording transactions and reconciling accounts to the general ledger and subsidiary ledgers. The Finance Department should also evaluate current procedures to ensure that all accounts are reconciled and supported.

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

- Staff 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.
- Management has taken measures to increase staffing in the Finance Department, which will enable staff to ensure that all accounts are reconciled and have supporting documentation.
- Staff will make it a priority to maintain monthly reconciliations in order to maintain accuracy and attention to detail.

City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

2016-005 – Segregation of Duties

Federal program information:

| | |
|--------------------------------------|--|
| Funding agency: | Environmental Protection Agency |
| Title: | Capitalization Grants for Clean Water – State Revolving Funds |
| CFDA number: | 66.468 |
| Award year and number: | 2014; 920249-14 |
| Pass-through entity: (if applicable) | Water Infrastructure Finance Authority of Arizona |

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, general ledger, and performs the bank reconciliation. Another individual is responsible for entering the payroll information and there is not adequate oversight.

Cause and Effect: A detailed risk assessment has not been performed to determine which duties can be segregated and/or other controls implemented. As a result, adequate policies have not been implemented to help ensure that duties are segregated, to the fullest extent possible, that minimize control situations where individuals have the opportunity to misappropriate assets.

Auditor's Recommendations: The City Council and management should be mindful that the concentration of incompatible duties with a limited number of personnel could create control situations that would allow personnel to misappropriate assets. The City should perform a formal risk assessment to evaluate and to determine the risk level and, based on these identified risks, implement additional policies and procedures to appropriately segregate duties as necessary.

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

- Management has taken measures to increase staffing in the Finance Department to address internal control issues and eliminate the concentration of duties that would allow personnel to misappropriate assets.
- Staff intends to 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.
- Adoption of administrative policies and procedures to be implemented will be the final piece to be completed. Staff believes this task is of such importance that it needs to be researched thoroughly to put into place best practices.

**City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

2016-006 – Capital Assets

Federal program information:

| | |
|--------------------------------------|--|
| Funding agency: | Environmental Protection Agency |
| Title: | Capitalization Grants for Clean Water – State Revolving Funds |
| CFDA number: | 66.468 |
| Award year and number: | 2014; 920249-14 |
| Pass-through entity: (if applicable) | Water Infrastructure Finance Authority of Arizona |

Criteria: To help ensure the accuracy of financial records, capital assets should be identified and reconciled to physical inventories. In addition, a listing of assets and the related depreciation amounts should be kept current to ensure that depreciation is accurately calculated.

Condition: 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.

Cause and Effect: The City does not have adequate policies and procedures to ensure that the capital assets were properly stated. Physical inventories of capital assets have not been completed and the supporting capital asset records do not reconcile to the general ledger.

Auditor's Recommendations: The City should complete a physical inventory of its capital assets and reconcile the inventory records to the capital assets subsidiary schedules. Further, the City should implement policies and procedures to ensure that physical inventories are completed periodically and reconcile the results to the general ledger.

Management's Response: To improve the City's reconciliation of capital assets, the City will:

- Staff will be directed to complete a physical inventory of the capital assets in each City department.
- Once physical inventories have been completed, staff will reconcile the inventory records to the capital assets subsidiary schedules.
- It is staff's intention to add policies and procedures, for adoption by Council, which will address the need to conduct regular periodical physical inventories so reconciliations may be entered into the general ledger.

**City of Globe, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016**

2016-007 – Reporting

Federal program information:

| | |
|--------------------------------------|--|
| Funding agency: | Environmental Protection Agency |
| Title: | Capitalization Grants for Clean Water – State Revolving Funds |
| CFDA number: | 66.468 |
| Award year and number: | 2014; 920249-14 |
| Pass-through entity: (if applicable) | Water Infrastructure Finance Authority of Arizona |

Criteria: The required financial reports associated with the Capitalization Grants for Clean Water and the related loan agreement between the City and the Water Infrastructure Finance Authority of Arizona (WIFA) should include all activity of the reporting period, be supported by applicable accounting or performance records, and be fairly presented in accordance with program requirements.

Condition: 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.

Cause and Effect: The City lacks sufficient oversight to ensure that required financial reports are accurate and presented in the format required by the grant provisions and the awarding agency. As a result, financial reports submitted to WIFA for the purposes of requesting reimbursement and reporting period expenditures were not consistent with actual expenditures recorded in the City's accounting system.

Auditor's Recommendations: The City Council and management should implement policies and procedures that require someone who is knowledgeable about the project guidelines to review and approve financial reporting information before it is submitted to WIFA.

Management's Response: To improve the City's review and approval processes of financial reporting information prior to submission to WIFA, the City will:

- Policies and procedures will be implemented that will require someone who is knowledgeable about project guidelines to review and approve financial reporting prior to its submission to WIFA.
- Staff has performed an in-depth audit of the WIFA revenue and expense accounts and is in the processing of implementing new features to clearly and concisely track the flow of money.
- Staff is working closely with the WIFA Finance Department to ensure we are knowledgeable on what WIFA reporting requirements are, and that the City complies with those requirements.

**City of Globe, Arizona
Corrective Action Plan
For the Year Ended June 30, 2016**

| Audit Finding | Corrective Action Plan | Person(s) Responsible | Estimated Completion Date |
|----------------------|--|------------------------------|----------------------------------|
| 2016-004 | See management response at the finding | Finance Director/ | June 30, 2017 |
| 2016-005 | See management response at the finding | Finance Director | June 30, 2017 |
| 2016-006 | See management response at the finding | Finance Director | June 30, 2017 |
| 2016-007 | See management response at the finding | Finance Director | June 30, 2017 |

**City of Globe, Arizona
Summary Schedule of Prior Year Findings
Year Ended June 30, 2016**

Section IV – Prior Year Federal Award Findings and Questioned Costs

2015-001 – Internal Control

Finding Description: Bank reconciliations were not prepared timely

Current Year Status: *Partially Implemented*