

CITY OF WINSLOW, ARIZONA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council of
City of Winslow, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the City of Winslow, Arizona (the City), 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City'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, business-type activities, and each major fund of the City of Winslow, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; and GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinions are not modified with respect to this matter.

As described in Note 1 to the financial statements, the City restated beginning net position/fund balance of the financial statements for the year ended June 30, 2016, to allocate a portion of the ASRS net pension liability to the Internal Service Fund. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 14, the Budgetary Comparison Schedules on pages 59 through 61, and Pension Plan Schedules on pages 63 through 68 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.

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 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 December 29, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Fester & Chapman P.C.

December 29, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(REQUIRED SUPPLEMENTARY INFORMATION)



CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

As management of the City of Winslow, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

We (the City of Winslow, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2016. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, and significant economic factors. When referring to prior year data in this analysis we will be drawing upon information from last year's audited financial reports.

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$40,457,242 (net position). Of this amount \$3,938,202 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,875,939, a decrease of \$1,108,342 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,514,417 or 28% of total General Fund expenditures.
- General Fund revenues (on a budgetary basis) were more than budgeted revenues by \$292,608 for fiscal year ending June 30, 2016. Additionally, budgetary basis expenditures were 110% (\$820,123) in excess of the final budget in the General Fund.
- General Fund revenues were less than expenditures by \$914,048; a negative variance of \$527,515 from the final budget.

OVERVIEW OF FINANCIAL STATEMENTS

The financial section of the Annual Financial Report (AFR) for the City of Winslow, Arizona consists of this discussion and analysis, the basic financial statements and the required supplementary schedules. The basic financial statements include the government-wide financial statements, fund financial statements, and notes to basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Winslow, Arizona's finances, in a manner similar to private-sector business.

The statement of net position presents information on all of the City of Winslow, Arizona's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the City of Winslow, Arizona is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Winslow, Arizona that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Winslow, Arizona include general government, public safety, highways and streets, culture and recreation and redevelopment and housing. The business-type activities include airport, water, sanitation, and wastewater operations.

The government-wide financial statements can be found on pages 17-18 of this report.

Fund Financial Statements. The fund financial statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Winslow, Arizona, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Winslow, Arizona can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 19 - 22 of this report.

Proprietary Funds. The City of Winslow, Arizona maintains two types of proprietary funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Winslow, Arizona's various functions. The City of Winslow, Arizona uses an internal service fund to account for its automotive maintenance services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Airport, Water, Sanitation and Wastewater Funds. The internal service fund is presented in a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 23 - 26 of this report.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Winslow, Arizona's own programs. The Pension Trust Fund accounts for the activities of the Oncall Firefighters' Pension Plan, which accumulates resources for pension benefit payments to qualified volunteer firefighters and the accounting used is much like that used for proprietary funds. The Agency Fund is custodial in nature and does not present results of operations or a measurement focus.

The basic fiduciary fund financial statements can be found immediately after the basic financial statements.

Other information. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The City has chosen to present these budgetary statements as required supplementary information. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information on pages 57-69.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

Net position may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Position of the City for June 30, 2016 showing that assets exceeded liabilities by \$40,457,242.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current and Other Assets	\$ 11,342,949	\$ 11,549,324	\$ 6,592,581	\$ 5,966,767	\$ 17,935,530	\$ 17,516,091
Capital Assets						
Non-depreciable	3,414,500	2,746,840	4,322,401	4,100,475	7,736,901	6,847,315
Depreciable	<u>18,481,858</u>	<u>17,452,936</u>	<u>10,685,664</u>	<u>11,934,374</u>	<u>29,167,522</u>	<u>29,387,310</u>
Total Assets	<u>33,239,307</u>	<u>31,749,100</u>	<u>21,600,646</u>	<u>22,001,616</u>	<u>54,839,953</u>	<u>53,750,716</u>
DEFERRED OUTFLOWS						
Amount on Refunding	65,326	76,208			65,326	76,208
Amount Related to Pensions	<u>1,762,389</u>	<u>1,480,579</u>	<u>110,493</u>	<u>129,127</u>	<u>1,872,882</u>	<u>1,609,706</u>
Total Deferred Outflow of Resources	<u>1,827,715</u>	<u>1,556,787</u>	<u>110,493</u>	<u>129,127</u>	<u>1,938,208</u>	<u>1,685,914</u>
LIABILITIES						
Other Liabilities	971,263	793,428	405,122	472,327	1,376,385	1,265,755
Noncurrent Liabilities						
Due Within One Year	655,882	786,411	399,571	394,307	1,055,453	1,180,718
Due in More Than One Year	<u>8,365,508</u>	<u>8,655,894</u>	<u>3,536,128</u>	<u>3,845,308</u>	<u>11,901,636</u>	<u>12,501,202</u>
Total liabilities	<u>9,992,653</u>	<u>10,235,733</u>	<u>4,340,821</u>	<u>4,711,942</u>	<u>14,333,474</u>	<u>14,947,675</u>
DEFERRED INFLOWS						
Amount Related to Pensions	1,866,628	1,326,843	120,817	179,885	1,987,445	1,506,728
NET POSITION						
Net Investment in Capital						
Assets	19,453,374	17,963,602	12,373,481	13,086,254	31,826,855	31,049,856
Restricted	4,361,310	4,587,644	330,875	330,875	4,692,185	4,918,519
Unrestricted	<u>(606,943)</u>	<u>(807,935)</u>	<u>4,545,145</u>	<u>3,821,787</u>	<u>3,938,202</u>	<u>3,013,852</u>
Total Net Position	<u>\$ 23,207,741</u>	<u>\$ 21,743,311</u>	<u>\$ 17,249,501</u>	<u>\$ 17,238,916</u>	<u>\$ 40,457,242</u>	<u>\$ 38,982,227</u>

Net position consists of three components. The largest portion of the City of Winslow, Arizona's net position (79%) reflects its investment in capital assets (e.g., land, buildings, furniture, equipment and vehicles), less any related debt used to acquire those assets that are still outstanding. The City of Winslow, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Winslow, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Winslow, Arizona's net position (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$3,938,202) may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the current fiscal year, the City of Winslow, Arizona is able to report positive balances in all three categories of net position for the government as a whole.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 1,109,247	\$ 1,052,693	\$ 4,911,071	\$ 4,965,532	\$ 6,020,318	\$ 6,018,225
Operating Grants and Contributions	2,475,336	2,364,386	76,999		2,552,335	2,364,386
Capital Grants and Contributions	352,956		112,534	24,912	465,490	24,912
General Revenues:						
Sales Tax	5,242,263	5,092,099			5,242,263	5,092,099
Property taxes	357,635	342,740			357,635	342,740
Franchise taxes	176,181	216,439		75,000	176,181	291,439
State revenue sharing	2,551,358	2,550,008			2,551,358	2,550,008
Unrestricted Investment Earnings	70,999	27,610	91,694	41,982	162,693	69,592
Miscellaneous	65,462	40,385	6,840		72,302	40,385
Total Revenues:	<u>12,401,437</u>	<u>11,686,360</u>	<u>5,199,138</u>	<u>5,107,426</u>	<u>17,600,575</u>	<u>16,793,786</u>
EXPENSES						
General Government	3,869,142	3,542,494			3,869,142	3,542,494
Public Safety	3,834,564	4,073,532			3,834,564	4,073,532
Highways and Streets	1,534,712	1,908,566			1,534,712	1,908,566
Culture and Recreation	505,918	499,347			505,918	499,347
Redevelopment and Housing	1,122,063	1,179,873			1,122,063	1,179,873
Interest and Fiscal Charges	70,608	81,604			70,608	81,604
Airport			432,391	455,259	432,391	455,259
Water			1,799,269	1,869,535	1,799,269	1,869,535
Sanitation			1,165,587	1,226,233	1,165,587	1,226,233
Wastewater			1,791,306	1,697,014	1,791,306	1,697,014
Total Expenses	<u>10,937,007</u>	<u>11,285,416</u>	<u>5,188,553</u>	<u>5,248,041</u>	<u>16,125,560</u>	<u>16,533,457</u>
Change in net position before transfers	1,464,430	400,944	10,585	(140,615)	1,475,015	260,329
Transfers		(304,710)		304,710		
Change in net position	<u>1,464,430</u>	<u>96,234</u>	<u>10,585</u>	<u>164,095</u>	<u>1,475,015</u>	<u>260,329</u>
Net Position - Beginning	<u>21,743,311</u>	<u>21,647,077</u>	<u>17,238,916</u>	<u>17,074,821</u>	<u>38,982,227</u>	<u>38,721,898</u>
Net Position - Ending	<u>\$23,207,741</u>	<u>\$21,743,311</u>	<u>\$17,249,501</u>	<u>\$17,238,916</u>	<u>\$40,457,242</u>	<u>\$38,982,227</u>

Governmental activities increased the City's net position by \$1,464,430 in fiscal year 2016. A key factor of this increase was an increase in state shared revenues. Business-type activities increased the City's net position by \$10,585 in fiscal year 2016. A key factor of this increase was a additional transfers from the capital projects fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds and Capital Projects Fund.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$6,875,939, a decrease of \$1,108,342 in comparison with the prior year. Approximately 37% of this total amount (\$2,514,417) constitutes unassigned fund balance which is available for spending at the government's discretion. The remainder of fund balance is nonspendable or restricted to indicate that is not available for new spending. At fiscal year ended June 30, 2016, fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2014-15
General Fund	\$ 2,514,417	\$ (859,891)
Highway User Revenue Fund	427,739	(764,596)
Housing Fund	204,837	(1,222)
CDBG Fund	1,186	-
Capital Projects Fund	3,727,760	517,367

The General Fund is the chief operating fund of the City of Winslow, Arizona. At the end of the current fiscal year, the fund balance of the General Fund was \$2,514,417, while total fund balance reached \$6,875,939. As a measure of the General Fund's liquidity, it may be useful to compare General Fund balance total General Fund expenditures. General Fund balance represents 28% of total General Fund expenditures.

The fund balance of the City of Winslow, Arizona's General Fund decreased by \$859,891 as a result of the City's match for capital improvements in the current fiscal year and a capital lease payment.

There were no significant changes in the Housing Fund balance during the fiscal year.

There was no change in the CDBG Fund balance during the fiscal year.

The Capital Projects Fund balance increased during the year as a result of limited capital project work during the year in an effort build fund balance for use on planned future capital projects.

BUDGETARY HIGHLIGHTS

The City's annual budget is the legally adopted expenditure control document of the City. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on pages 59 - 61. These statements compare the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis.

General Fund revenues of \$8,026,445, on a budgetary basis, exceeded budgeted revenues of \$7,733,837 by \$292,608 while budgetary basis expenditures of \$8,940,493 were 110% of budgeted expenditures. The increase in expenditures was mostly a result of capital projects in fiscal year 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2016 amount to \$21,896,358 (net of accumulated depreciation), a net increase of 8.4% from the prior year. Capital assets for its business-type activities as of June 30, 2016 amount to \$15,008,065 (net of accumulated depreciation), a net decrease of less than 7%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

During fiscal year ended June 30, 2016 the annual depreciation expense for governmental and business-type activities was \$1,354,621 and \$1,300,765, respectively. Additions to governmental and business-type activities capital assets during the fiscal year totaled \$3,051,204 and \$273,982, respectively. See Note 6 for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

- Vehicles (Fire Truck) (\$393,792)
- Street Improvements (\$664,000)
- Construction in Progress (\$2,212,518)
- Buildings and Improvements (\$444,894)

The following schedule presents capital asset balances for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,706,222	\$ 1,706,222	\$ 709,084	\$ 709,084	\$ 2,415,306	\$ 2,415,306
Construction in progress	1,708,278	1,040,618	3,613,317	3,391,391	5,321,595	4,432,009
Infrastructure, net	11,397,130	10,495,023			11,397,130	10,495,023
Buildings and improvements, net	5,810,868	5,819,919	184,815	198,711	5,995,683	6,018,630
Machinery, equipment and vehicles, net	1,273,860	1,137,993	235,315	289,938	1,509,175	1,427,931
Land improvements, net			2,593,178	2,974,764	2,593,178	2,974,764
Water system and improvements, net			6,281,382	6,624,107	6,281,382	6,624,107
Wastewater plant and improvements, net			1,390,974	1,846,854	1,390,974	1,846,854
Total assets, net	<u>\$ 21,896,358</u>	<u>\$ 20,199,775</u>	<u>\$ 15,008,065</u>	<u>\$ 16,034,849</u>	<u>\$ 36,904,423</u>	<u>\$ 36,234,624</u>

Additional information on the City's capital assets can be found in Note 6.

Debt Administration At year end, the City had \$4,589,281 in long-term debt outstanding. The following table presents a summary of the City's outstanding long-term debt for the fiscal years ended June 30, 2016 and June 30, 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Highway User Revenue Bonds	\$ 1,575,000	\$ 1,805,000			\$ 1,575,000	\$ 1,805,000
Water Revenues Bonds			\$ 1,165,000	\$ 1,315,000	1,165,000	1,315,000
WIFA Loan Payable			1,274,653	1,344,479	1,274,653	1,344,479
Capital Leases	379,697	507,382	194,931	289,115	574,628	796,497
Total outstanding debt	<u>\$ 1,954,697</u>	<u>\$ 2,312,382</u>	<u>\$ 2,634,584</u>	<u>\$ 2,948,594</u>	<u>\$ 4,589,281</u>	<u>\$ 5,260,976</u>

Additional information on the City's long-term debt can be found in Notes 7 through 8.

CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

City management considered many factors in the process of developing the operating budget for the fiscal year 2015-16. The most significant factors affecting the subsequent year's budget are:

- Stabilizing utilities costs and rates
- State shared revenue and local sales tax
- Business retention and expansion
- Waste Water Treatment Plant rehabilitation
- Continued efforts to mitigate slum and blight

General Fund

The budget for the General Fund increased from \$7.4 million to \$8 million mainly due to an increase in sales tax revenue.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of those with an interest and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

City of Winslow, Arizona
Finance Department
119 E. First St.
Winslow, AZ 86047
(928) 289-5533

Or visit our website at:
www.winslowaz.gov

BASIC FINANCIAL STATEMENTS



CITY OF WINSLOW, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments	\$ 6,728,527	\$ 5,724,541	\$ 12,453,068
Receivables (net of allowance for uncollectibles):			
Property taxes	23,065		23,065
Accounts	81,467	513,410	594,877
Accrued interest		224	224
Due from other governments	962,001	7,765	969,766
Inventory	9,492	15,766	25,258
Prepaid items	10,398		10,398
Restricted cash	19,003	330,875	349,878
Net pension assets	3,508,996		3,508,996
Capital assets, not being depreciated	3,414,500	4,322,401	7,736,901
Capital assets, being depreciated (net)	<u>18,481,858</u>	<u>10,685,664</u>	<u>29,167,522</u>
Total assets	<u>33,239,307</u>	<u>21,600,646</u>	<u>54,839,953</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred charge on debt refunding	65,326		65,326
Deferred outflows related to pensions	<u>1,762,389</u>	<u>110,493</u>	<u>1,872,882</u>
Total deferred outflows of resources	<u>1,827,715</u>	<u>110,493</u>	<u>1,938,208</u>
LIABILITIES:			
Accounts payable	301,952	230,185	532,137
Accrued payroll and employee benefits	186,795	24,991	211,786
Due to other governments	421,721		421,721
Deposits held for others	14,811	144,946	159,757
Unearned revenue	45,984	5,000	50,984
Noncurrent liabilities:			
Due within one year	655,882	399,571	1,055,453
Due in more than one year	<u>8,365,508</u>	<u>3,536,128</u>	<u>11,901,636</u>
Total liabilities	<u>9,992,653</u>	<u>4,340,821</u>	<u>14,333,474</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred inflows related to pensions	<u>1,866,628</u>	<u>120,817</u>	<u>1,987,445</u>
Total deferred inflows of resources	<u>1,866,628</u>	<u>120,817</u>	<u>1,987,445</u>
NET POSITION:			
Net investment in capital assets	19,453,374	12,373,481	31,826,855
Restricted for:			
Highways and streets	426,896		426,896
Public housing program	206,654		206,654
Capital projects	3,727,760		3,727,760
Debt service		330,875	330,875
Unrestricted (deficit)	<u>(606,943)</u>	<u>4,545,145</u>	<u>3,938,202</u>
Total net position	<u>\$ 23,207,741</u>	<u>\$ 17,249,501</u>	<u>\$ 40,457,242</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government	\$ 3,869,142	\$ 856,249	\$ 118,258	\$ 352,956	\$ (2,541,679)		\$ (2,541,679)
Public safety	3,834,564		1,424,732		(2,409,832)		(2,409,832)
Highways and streets	1,534,712				(1,534,712)		(1,534,712)
Culture and recreation	505,918	98,553			(407,365)		(407,365)
Redevelopment and housing	1,122,063	154,445	932,346		(35,272)		(35,272)
Interest and fiscal charges	70,608				(70,608)		(70,608)
Total governmental activities	10,937,007	1,109,247	2,475,336	352,956	(6,999,468)		(6,999,468)
Business-Type activities:							
Airport	432,391	51,026	9,385	112,534		\$ (259,446)	(259,446)
Water	1,799,269	2,077,645				278,376	278,376
Sanitation	1,165,587	827,800	67,614			(270,173)	(270,173)
Wastewater	1,791,306	1,954,600				163,294	163,294
Total business-type activities	5,188,553	4,911,071	76,999	112,534		(87,949)	(87,949)
Total government	\$ 16,125,560	\$ 6,020,318	\$ 2,552,335	\$ 465,490	(6,999,468)	(87,949)	(7,087,417)
General revenues:							
Taxes:							
Sales tax					5,242,263		5,242,263
Property taxes					357,635		357,635
Franchise taxes					176,181		176,181
Unrestricted state shared revenues:							
Urban revenue sharing					1,162,461		1,162,461
State shared sales tax					837,451		837,451
State shared vehicle license tax					551,446		551,446
Investment income					70,999	91,694	162,693
Miscellaneous					65,462	6,840	72,302
Total general revenues					8,463,898	98,534	8,562,432
Change in net position					1,464,430	10,585	1,475,015
Net position, July 1, 2015					21,743,311	17,238,916	38,982,227
Net position, June 30, 2016					\$ 23,207,741	\$ 17,249,501	\$ 40,457,242

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Highway User Revenue Fund	Housing Fund	CDBG Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:						
Cash and investments	\$ 2,421,967	\$ 365,925	\$ 211,689	\$ 1,186	\$ 3,727,760	\$ 6,728,527
Receivables:						
Property taxes	23,065					23,065
Accounts	74,483		6,984			81,467
Due from other governments	835,229	120,409	6,363			962,001
Due from other funds	31,294					31,294
Prepaid items			10,398			10,398
Restricted cash			19,003			19,003
Total assets	\$ 3,386,038	\$ 486,334	\$ 254,437	\$ 1,186	\$ 3,727,760	\$ 7,855,755
LIABILITIES:						
Accounts payable	\$ 221,689	\$ 58,595	\$ 2,540			\$ 282,824
Accrued payroll and employee benefits	183,182					183,182
Due to other governments	421,721					421,721
Due to other funds			31,294			31,294
Deposits held for others	1,755		13,056			14,811
Unearned revenue	43,274		2,710			45,984
Total liabilities	871,621	58,595	49,600			979,816
FUND BALANCES:						
Nonspendable			10,398			10,398
Restricted		427,739	194,439	1,186	3,727,760	4,351,124
Unassigned	2,514,417					2,514,417
Total fund balances	2,514,417	427,739	204,837	1,186	3,727,760	6,875,939
Total liabilities and fund balances	\$ 3,386,038	\$ 486,334	\$ 254,437	\$ 1,186	\$ 3,727,760	\$ 7,855,755

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund balances - total governmental funds		\$ 6,875,939
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Net pension assets held in trust for future benefits are not available for operations and, therefore, are not reported in the funds.		3,508,996
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		
Governmental capital assets	\$ 38,485,820	
Less accumulated depreciation	<u>(16,589,462)</u>	21,896,358
Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refunding are applicable to future reporting periods and, therefore, are not reported in the funds.		
Deferred charges on debt refunding	65,326	
Deferred outflows and inflows of resources related to pensions	<u>(104,239)</u>	(38,913)
Some liabilities are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated absences	(469,353)	
Revenue bonds payable	(1,575,000)	
Capital leases payable	(379,697)	
Net pension liabilities	<u>(6,597,340)</u>	(9,021,390)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		<u>(13,249)</u>
Net position of governmental activities		<u>\$ 23,207,741</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016

	General Fund	Highway User Revenue Fund	Housing Fund	CDBG Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:						
Taxes:						
Sales	\$ 3,634,440				\$ 1,607,823	\$ 5,242,263
Property	357,635					357,635
Franchise	176,181					176,181
Intergovernmental	2,813,384	\$ 1,280,964	\$ 932,346			5,026,694
Fines and forfeits	36,415					36,415
Licenses and permits	40,771					40,771
Charges for services	839,877	20,720	133,725			994,322
Rentals and royalties	34,093					34,093
Contributions	22,874	352,956				375,830
Investment income	29,105	24,631	7		17,256	70,999
Other	41,670	1,581	2,983			46,234
Total revenues	<u>8,026,445</u>	<u>1,680,852</u>	<u>1,069,061</u>		<u>1,625,079</u>	<u>12,401,437</u>
EXPENDITURES:						
Current:						
General government	3,990,794					3,990,794
Public safety	4,312,413					4,312,413
Highways and streets		2,145,714				2,145,714
Culture and recreation	477,059					477,059
Redevelopment and housing			1,070,283			1,070,283
Capital outlay	20,805				1,052,685	1,073,490
Debt service:						
Principal	127,689	229,996				357,685
Interest	11,733	70,608				82,341
Total expenditures	<u>8,940,493</u>	<u>2,446,318</u>	<u>1,070,283</u>		<u>1,052,685</u>	<u>13,509,779</u>
(Deficiency) excess of revenues						
(under) over expenditures	<u>(914,048)</u>	<u>(765,466)</u>	<u>(1,222)</u>		<u>572,394</u>	<u>(1,108,342)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	54,157	870				55,027
Transfers out					(55,027)	(55,027)
Total other financing sources (uses)	<u>54,157</u>	<u>870</u>			<u>(55,027)</u>	
Net change in fund balances	(859,891)	(764,596)	(1,222)		517,367	(1,108,342)
Fund balances, July 1, 2015	<u>3,374,308</u>	<u>1,192,335</u>	<u>206,059</u>	\$ 1,186	<u>3,210,393</u>	<u>7,984,281</u>
Fund balances, June 30, 2016	<u>\$ 2,514,417</u>	<u>\$ 427,739</u>	<u>\$ 204,837</u>	<u>\$ 1,186</u>	<u>\$ 3,727,760</u>	<u>\$ 6,875,939</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds \$(1,108,342)

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	\$ 3,051,204	
Depreciation expense	<u>(1,354,621)</u>	1,696,583

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of principal of long-term debt consumes the current financial resources of governmental funds. However, these payments have no effect on net position. This amount is the effect of difference in the treatment of repayments of long-term debt and related items.

Principal repaid		357,685
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Under the modified accrual basis accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Amortization of bond items	(10,882)	
Net change in compensated absences	<u>71,011</u>	60,129

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.

457,403

Internal service funds are used by management to charge the costs of certain activities such as technology, maintenance and insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities in the Statement of Activities.

972

Change in net position of governmental activities \$ 1,464,430

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-type Activities Enterprise Funds				Totals	Governmental Activities
	Airport Fund	Water Fund	Sanitation Fund	Wastewater Fund		Internal Service Fund
ASSETS:						
Current assets:						
Cash and investments	\$ 6,987	\$ 1,642,038	\$ 97,932	\$ 3,977,584	\$ 5,724,541	
Receivables:						
Accounts, net	18,960	269,096	60,457	164,897	513,410	
Interest				224	224	
Due from other governments		1,612			1,612	
Inventory		15,766			15,766	\$ 9,492
Total current assets	<u>25,947</u>	<u>1,928,512</u>	<u>158,389</u>	<u>4,142,705</u>	<u>6,255,553</u>	<u>9,492</u>
Noncurrent assets:						
Restricted cash		330,875			330,875	
Advance to other funds			227,232		227,232	
Capital assets:						
Non-depreciable	371,345	769,327	48,015	3,133,714	4,322,401	
Depreciable, net	<u>2,571,552</u>	<u>6,337,354</u>	<u>341,243</u>	<u>1,435,515</u>	<u>10,685,664</u>	
Total noncurrent assets	<u>2,942,897</u>	<u>7,437,556</u>	<u>616,490</u>	<u>4,569,229</u>	<u>15,566,172</u>	
Total assets	<u>2,968,844</u>	<u>9,366,068</u>	<u>774,879</u>	<u>8,711,934</u>	<u>21,821,725</u>	<u>9,492</u>
DEFERRED OUTFLOWS OF RESOURCES:						
Deferred outflows related to pensions		45,067	21,648	43,778	110,493	11,733
Total deferred outflows of resources		<u>45,067</u>	<u>21,648</u>	<u>43,778</u>	<u>110,493</u>	<u>11,733</u>
LIABILITIES:						
Current liabilities:						
Accounts payable	662	68,386	65,915	95,222	230,185	16,647
Accrued payroll and employee benefits		6,733	4,989	13,269	24,991	6,096
Deposits held for others		144,026	920		144,946	
Unearned revenue	5,000				5,000	
Current portion of:						
Compensated absences		14,310	9,317	29,808	53,435	3,224
Landfill postclosure costs payable			13,000		13,000	
Bond payable		165,000			165,000	
Loan payable		71,781			71,781	
Capital leases payable		96,355			96,355	
Total current liabilities	<u>5,662</u>	<u>566,591</u>	<u>94,141</u>	<u>138,299</u>	<u>804,693</u>	<u>25,967</u>
Noncurrent liabilities:						
Advance from other funds		227,232			227,232	
Landfill postclosure costs payable			182,000		182,000	
Bond payable		1,000,000			1,000,000	
Loan payable		1,202,872			1,202,872	
Capital leases payable		98,576			98,576	
Net pension liabilities		421,071	210,536	421,073	1,052,680	84,214
Total noncurrent liabilities		<u>2,949,751</u>	<u>392,536</u>	<u>421,073</u>	<u>3,763,360</u>	<u>84,214</u>
Total liabilities	<u>5,662</u>	<u>3,516,342</u>	<u>486,677</u>	<u>559,372</u>	<u>4,568,053</u>	<u>110,181</u>
DEFERRED INFLOWS OF RESOURCES:						
Deferred inflows related to pensions		48,327	24,163	48,327	120,817	9,666
Total deferred outflows of resources		<u>48,327</u>	<u>24,163</u>	<u>48,327</u>	<u>120,817</u>	<u>9,666</u>
NET POSITION:						
Net investment in capital assets	2,942,897	4,472,097	389,258	4,569,229	12,373,481	
Restricted for debt service		330,875			330,875	
Unrestricted (deficit)	20,285	1,043,494	(103,571)	3,584,937	4,545,145	(98,622)
Total net position	<u>\$ 2,963,182</u>	<u>\$ 5,846,466</u>	<u>\$ 285,687</u>	<u>\$ 8,154,166</u>	<u>\$ 17,249,501</u>	<u>\$ (98,622)</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-type Activities Enterprise Funds				Totals	Governmental Activities
	Airport Fund	Water Fund	Sanitation Fund	Wastewater Fund		Internal Service Fund
Operating revenues:						
Charges for services	\$ 51,026	\$ 2,077,645	\$ 827,800	\$ 1,954,600	\$ 4,911,071	\$ 324,673
Total operating revenues	<u>51,026</u>	<u>2,077,645</u>	<u>827,800</u>	<u>1,954,600</u>	<u>4,911,071</u>	<u>324,673</u>
Operating expenses:						
Cost of sales and services	50,678	1,285,969	1,118,654	1,321,972	3,777,273	323,701
Depreciation	<u>381,713</u>	<u>402,785</u>	<u>46,933</u>	<u>469,334</u>	<u>1,300,765</u>	<u> </u>
Total operating expenses	<u>432,391</u>	<u>1,688,754</u>	<u>1,165,587</u>	<u>1,791,306</u>	<u>5,078,038</u>	<u>323,701</u>
Operating (loss) income	<u>(381,365)</u>	<u>388,891</u>	<u>(337,787)</u>	<u>163,294</u>	<u>(166,967)</u>	<u>972</u>
Nonoperating revenues (expenses):						
Noncapital grants	9,385		67,614		76,999	
Grants and contributions	112,534		6,840		119,374	
Investment earnings		11,031	7,536	73,127	91,694	
Interest expense		<u>(110,515)</u>			<u>(110,515)</u>	
Total nonoperating (expenses) revenues	<u>121,919</u>	<u>(99,484)</u>	<u>81,990</u>	<u>73,127</u>	<u>177,552</u>	
Change in net position	(259,446)	289,407	(255,797)	236,421	10,585	972
Total net position - beginning (as restated)	<u>3,222,628</u>	<u>5,557,059</u>	<u>541,484</u>	<u>7,917,745</u>	<u>17,238,916</u>	<u>(99,594)</u>
Total net position - ending	<u>\$ 2,963,182</u>	<u>\$ 5,846,466</u>	<u>\$ 285,687</u>	<u>\$ 8,154,166</u>	<u>\$17,249,501</u>	<u>\$ (98,622)</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

	Business-type Activities Enterprise Funds				Totals	Governmental Activities
	Airport Fund	Water Fund	Sanitation Fund	Wastewater Fund		Internal Service Fund
Cash flows from operating activities:						
Receipts from customers	\$ 58,171	\$ 2,072,695	\$ 825,365	\$ 1,947,939	\$ 4,904,170	
Receipts from interfund services						\$ 324,673
Payments to suppliers	(61,539)	(995,399)	(951,488)	(1,098,200)	(3,106,626)	(241,467)
Payments to employees	<u> </u>	<u>(300,006)</u>	<u>(215,743)</u>	<u>(258,442)</u>	<u>(774,191)</u>	<u>(89,359)</u>
Net cash (used) provided by operating activities	<u>(3,368)</u>	<u>777,290</u>	<u>(341,866)</u>	<u>591,297</u>	<u>1,023,353</u>	<u>(6,153)</u>
Cash flows from noncapital financing activities:						
Cash (paid)/received from other funds for interfund borrowing		(34,300)	34,300			6,153
Noncapital grant receipts	<u>9,385</u>	<u> </u>	<u>74,454</u>	<u> </u>	<u>83,839</u>	<u> </u>
Net cash provided (used) by noncapital financing activities	<u>9,385</u>	<u>(34,300)</u>	<u>108,754</u>	<u> </u>	<u>83,839</u>	<u>6,153</u>
Cash flows from capital and related financing activities:						
Purchase of capital assets	(112,534)	(41,400)		(120,048)	(273,982)	
Capital grant receipts	112,534				112,534	
Interest paid on capital debt		(110,515)			(110,515)	
Principal paid on capital debt	<u> </u>	<u>(314,011)</u>	<u> </u>	<u> </u>	<u>(314,011)</u>	<u> </u>
Net cash used by capital and related financing activities	<u> </u>	<u>(465,926)</u>	<u> </u>	<u>(120,048)</u>	<u>(585,974)</u>	<u> </u>
Cash flows from investing activities:						
Interest received	<u> </u>	<u>11,031</u>	<u>7,536</u>	<u>73,127</u>	<u>91,694</u>	<u> </u>
Net cash provided by investing activities	<u> </u>	<u>11,031</u>	<u>7,536</u>	<u>73,127</u>	<u>91,694</u>	<u> </u>
Net (decrease)/increase in cash and cash equivalents	6,017	288,095	(225,576)	544,376	612,912	
Cash and cash equivalents, beginning of year	<u>970</u>	<u>1,684,818</u>	<u>323,508</u>	<u>3,433,208</u>	<u>5,442,504</u>	<u> </u>
Cash and cash equivalents, end of year	<u>\$ 6,987</u>	<u>\$ 1,972,913</u>	<u>\$ 97,932</u>	<u>\$ 3,977,584</u>	<u>\$ 6,055,416</u>	<u>\$ </u>

(CONTINUED)

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

(CONTINUED)

	Business-type Activities Enterprise Funds				Totals	Governmental Activities
	Airport Fund	Water Fund	Sanitation Fund	Wastewater Fund		Internal Service Fund
	Fund	Fund	Fund	Fund		Service Fund
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:						
Operating (loss) income	\$ (381,365)	\$ 388,891	\$ (337,787)	\$ 163,294	\$ (166,967)	\$ 972
Adjustments to reconcile operating (loss) income to net cash (used) provided by operations:						
Depreciation	381,713	402,785	46,933	469,334	1,300,765	
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:						
Net pension liability		435	(6,029)	29,589	23,995	(2,848)
Deferred outflows of resources related to pensions		7,734	5,537	5,363	18,634	9,666
Deferred inflows of resources related to pensions		(25,229)	(13,708)	(20,131)	(59,068)	(11,733)
Accounts receivable, net	7,145	(4,448)	(2,785)	(6,661)	(6,749)	
Accounts payable	(10,861)	21,100	(64)	(34,070)	(23,895)	(5,742)
Accrued expenses		(12,704)	(19,512)	(17,094)	(49,310)	5,616
Other liabilities			(13,000)		(13,000)	
Deposits held for others		(502)	350		(152)	
Compensated absences		(772)	(1,801)	1,673	(900)	(2,084)
Net cash (used) provided by operating activities	<u>\$ (3,368)</u>	<u>\$ 777,290</u>	<u>\$ (341,866)</u>	<u>\$ 591,297</u>	<u>\$ 1,023,353</u>	<u>\$ (6,153)</u>
Cash and investments:						
Unrestricted cash and investments	\$ 6,987	\$ 1,642,038	\$ 97,932	\$ 3,977,584	\$ 5,724,541	
Restricted cash		<u>330,875</u>			<u>330,875</u>	
Total cash and investments at June 30, 2016	<u>\$ 6,987</u>	<u>\$ 1,972,913</u>	<u>\$ 97,932</u>	<u>\$ 3,977,584</u>	<u>\$ 6,055,416</u>	<u>\$</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	<u>Pension Trust</u>
ASSETS:	
Cash and investments	\$ <u>159,926</u>
Total assets	<u>159,926</u>
NET POSITION:	
Held in trust	\$ <u>159,926</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	<u>Pension Trust</u>
ADDITIONS:	
Contributions	\$ <u>2,728</u>
Total additions	<u>2,728</u>
DEDUCTIONS:	
Benefits	8,609
Investment loss	14,271
Administration	<u>1,742</u>
Total deductions	<u>24,622</u>
Change in net position	(21,894)
Net position, beginning of year	<u>181,820</u>
Net position, end of year	<u>\$ 159,926</u>

See accompanying notes to financial statements.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Winslow, Arizona (the City) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows:

For the year ended June 30, 2016, the City implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

A. Financial Reporting Entity

The City is a municipal government that is governed by a separately elected governing body. It is legally separate from and fiscally independent of other state and local governments. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

Included within the reporting entity:

Winslow Housing Authority – The Winslow Housing Authority (the Authority) is a public benefit corporation created by the City to provide subsidized public housing in accordance with federal legislation. The City Council acts as the governing body of the Authority, and as such, employs executives; authorizes contracts with the U.S. Department of Housing and Urban Development; and causes the Authority to construct, own, and operate public housing facilities within the boundaries of the City. The financial liability of the Authority is essentially supported by the operating and debt service subsidies received under contract, from the federal government, although services or cash subsidies may be, and from time to time are, received from the City as well. Complete financial statements for the City's component unit are not prepared.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component unit. The effect of interfund activity has been eliminated from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements. Fiduciary funds are not reported in the government-wide financial statements.

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

Government-wide, and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual 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 taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The City reports the following major governmental funds:

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

Highway User Revenue Fund - The Highway User Revenue Fund is a special revenue fund which accounts for the City's share of motor fuel tax revenues.

Housing Fund - The Housing Fund is a special revenue fund which accounts for the Winslow Housing Authority component unit of the City. The Winslow Housing Authority receives federal assistance and provides low rent housing for the area.

CDBG Fund - The CDBG Fund is a special revenue fund which accounts for the revenues and expenditures of federally funded community development projects.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Projects Fund - The Capital Projects Fund accounts for City sales tax restricted for capital improvements.

The City reports the following major proprietary funds:

Airport Fund - The Airport Fund accounts for the City's airport operations.

Water Fund - The Water Fund accounts for the activities of the City's water utility operations.

Sanitation Fund - The Sanitation Fund accounts for the activities of the City's sanitation operations.

Wastewater Fund - The Wastewater Fund accounts for the activities of the City's sewer operations.

Additionally, the City reports the following fund type:

Internal Service Fund - The Internal Service Fund accounts for the City's automotive maintenance services provided to City departments on a cost reimbursement basis.

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the On-call Firefighters' Pension, which accumulates resources for pension benefit payments to qualified volunteer firefighters.

Material interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For governmental activities, business-type activities, and proprietary funds, when both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Investments

The City's cash and cash equivalents is considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

Cash and investments are pooled except for funds required to be held by fiscal agents or restricted under provisions of bond indentures. Interest earned from investments purchased with such pooled monies is allocated to each of the funds based on the average daily cash balances. State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. All investments are stated at fair value.

E. Investment Income

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

F. Receivables and Payables

All trade receivables are shown net of an allowance for uncollectibles of \$53,079. Navajo County levies real property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May. However, a lien against real and personal property assessed attaches on the first day of January preceding assessment and levy thereof.

G. Interfund Receivables/Payables

Interfund receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

Long-term loans between funds are formally approved by the City Council and the terms require repayment over several fiscal years. These receivables and payables are classified as "advances to other funds" and "advances from other funds" and are eliminated in the preparation of the government-wide financial statements.

H. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories consist of expendable supplies held for consumption. Inventories are recorded as expenses when consumed on the government-wide financial statements, and as expenditures when purchased on the fund financial statements.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Prepaid items are recorded as expenses when consumed in both the government-wide and fund financial statements.

I. Restricted Assets

In accordance with applicable covenants of bond issues or other agreements, certain assets have been restricted.

J. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

K. Capital Assets

Purchase of capital assets costing \$5,000 or more are carried at historical cost. Contributed assets are recorded at estimated fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	10-30
Infrastructure	10-30
Water systems and improvements	10-30
Wastewater plant and improvements	10-30
Machinery, equipment, and vehicles	3-20

L. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included.

Employees may accrue 96 hours of sick leave per year to a maximum of 175 hours. Once reaching 175 hours, any sick leave accrued over 175 hours may be paid out at the discretion of management. Generally, sick leave benefits provide for ordinary sick pay, but are forfeited upon termination of employment. However, employees who resign in good standing with a less than 5 years of service receive 25% of their accumulated sick leave benefits. Employees who resign in good standing with a minimum of 5 to 15 continuous years of service receive 50% of their accumulated sick leave benefits. Employees who resign in good standing with a minimum of 15 to 25 continuous years of service receive 75% of their accumulated sick leave benefits, and employees who resign in good standing with a minimum of 25 or more continuous years of service receive 100% of their accumulated sick leave benefits.

M. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

CITY OF WINSLOW, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pensions

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

O. Prior Period Adjustment

During the year ended June 30, 2016, the City implemented GASB Statement No. 68. Net pension liabilities, deferred outflows, and deferred inflows for pensions should have been allocated to the Internal Service Fund. The Internal Service Fund's beginning fund balance was restated as follows:

	<u>Internal Service Fund</u>
Net position as previously reported at June 30, 2015	\$ (12,532)
Fund reclassified due to GASB statement No 68	(87,062)
Net position at July 1, 2015	\$ (99,594)

NOTE 2 - FUND BALANCE CLASSIFICATIONS

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

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

Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations. Committed fund balances are self-imposed limitations approved by the City Council, which is the highest level of decision-making authority within the City, and the formal commitment must occur prior to fiscal year end. Only the City Council can remove or change the constraints placed on committed fund balances. Assigned fund balances are resources constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has not authorized anyone to assign fund balances. The unassigned fund balance is the residual classification for the General Fund, and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

The City has not formally adopted a spending priority policy and therefore uses the spending priority indicated in GASB 54. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City uses restricted fund balance first, then unrestricted fund

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 - FUND BALANCE CLASSIFICATIONS (CONTINUED)

balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, GASB 54 indicates to use committed then assigned and finally unassigned amounts.

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

The table below provides detail of the major components of the City's fund balance classifications at June 30, 2016:

	<u>General</u>	<u>HURF</u>	<u>Housing</u>	<u>CDBG</u>	<u>Capital Projects</u>	<u>Total</u>
Fund Balances:						
Nonspendable:						
Prepaid items			\$ 10,398			\$ 10,398
Restricted:						
Streets and transportation		\$ 427,739				427,739
Public housing program			194,439			194,439
Capital projects				\$ 1,186	\$ 3,727,760	3,728,946
Unassigned	<u>\$ 2,514,417</u>					<u>2,514,417</u>
Total fund balances	<u>\$ 2,514,417</u>	<u>\$ 427,739</u>	<u>\$ 204,837</u>	<u>\$ 1,186</u>	<u>\$ 3,727,760</u>	<u>\$ 6,875,939</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Balances - At year end, the Internal Service Fund reported deficit net position of \$98,622. The deficit in the Internal Service Fund was partially due to net pension liability allocated to the Internal Service Fund that was not recovered through charges for services. The City will evaluate future charges to recover the operating deficit.

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

NOTE 4 - CASH AND INVESTMENTS

State law limits deposits and investments to the Arizona State Treasurer's local government investment pool (LGIP), interest bearing savings accounts, certificates of deposit, United States Treasury Bills, notes or bonds which have a maturity date of not more than one year, and in accounts of any savings and loan associations insured by an agency of the government of the United States, up to the amount of such insurance or pledged collateral.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

A. Deposits

Custodial credit risk – In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. Statues require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover. As of June 30, 2016, the City's carrying amount of deposits was \$5,648,407 and the bank balance was \$6,204,386. As of June 30, 2016, the City's deposits were fully insured by the Federal Deposit Insurance Corporation or covered by collateral held by the pledging financial institution's trust department in the City's name. Restricted cash of \$330,875 is classified as restricted cash on the balance sheet because its use is limited by applicable bond covenants.

B. Investments

The City's investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

	Fair value measurement using			
	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
International Debt Securities	\$ 216,130	\$ 216,130		
Federal National Mortgage Association Securities	1,458,994	1,458,994		
Federal Home Loan Mortgage Corporation	521,936	521,936		
Corporate Debt Securities	732,815	732,815		
US Treasury Note	<u>356,078</u>	<u>356,078</u>		
Total investments by fair value level	<u>3,285,953</u>	<u>\$3,285,953</u>		
External investment pools measured at fair value				
Local Government Investment Pool 5	2,171,145			
Local Government Investment Pool 500	<u>728,257</u>			
Total investment pools measured at fair value	<u>2,899,402</u>			
Investment measured at amortized cost				
Money Market	<u>619,306</u>			
Total investments measured at amortized costs	<u>619,306</u>			
Total investments	<u>\$ 6,804,661</u>			

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the City hold. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

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

The City’s investment in money market and mutual funds are held by the City’s investment services advisor in the City’s name. The investments are covered by the Securities Investor Protection Company.

Interest Rate Risk – The City does not have a formal investment policy regarding interest rate risk that manages its exposure to declines in fair values from increasing interest rates. Investment maturities are indicated in the table below:

Investment	Maturity			Total
	Less than 1 year	1-3 years	More than 3 years	
Money Market	\$ 619,306			\$ 619,306
International Debt Securities	216,130			216,130
Federal National Mortgage Association Securities	320,233	\$ 831,530	\$ 307,231	1,458,994
Federal Home Loan Mortgage Corporation		521,936		521,936
Corporate Debt Securities		578,352	154,463	732,815
Local Government Investment Pool 5	2,171,145			2,171,145
Local Government Investment Pool 500		728,257		728,257
US Treasury Note	<u>100,016</u>		<u>256,062</u>	<u>356,078</u>
Total	<u>\$ 3,426,830</u>	<u>\$ 2,660,075</u>	<u>\$ 717,756</u>	<u>\$ 6,804,661</u>

Credit Risk – The City does not have a formal investment policy regarding credit risk. A credit rating for the mutual funds was not available. Credit ratings for the City’s investments are indicated below:

Investment	Amount	Rating	Agency
Money Market	\$ 619,306	N/A	N/A
Federal National Mortgage Association Securities	1,458,994	AAA	Moody's
Federal Home Loan Mortgage Corporation	521,936	AAA	Moody's
Corporate Debt Securities	54,917	A1	Moody's
Corporate Debt Securities	154,463	A2	Moody's
Corporate Debt Securities	253,871	A3	Moody's
Corporate Debt Securities	102,151	Aa3	Moody's
Corporate Debt Securities	167,413	Baa1	Moody's
International Debt Securities	216,130	A2	Moody's
US Treasury Note	155,062	Aaa	Moody's
US Treasury Note	201,016	N/A	N/A
Local Government Investment Pool 5	2,171,145	AAA	Moody's
Local Government Investment Pool 500	<u>728,257</u>	Aa2	Moody's
Total	<u>\$ 6,804,661</u>		

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk – The City has investments at June 30, 2016, of 5 percent or more in Federal National Mortgage Association Securities and Federal Home Loan Mortgage Corporation. These investments were 21.4 percent and 7.7 percent, respectively, of the City's total investments.

NOTE 5 - RECEIVABLES

The Navajo County Treasurer is responsible for collecting property taxes for all governmental entities within the City. The City levies property taxes due to the City in August. Two equal installments, payable in October and March, become delinquent after the first business day in November and May. During the year, the City also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice, and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

Property taxes are recognized as revenues in the fiscal year they are levied in the government-wide financial statements and represent a reconciling item between the government-wide and fund financial statements. In the fund financial statements, property taxes are recognized as revenues in the fiscal year they are levied and collected, or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end, or collected in advance of the fiscal year for which they are levied are reported as unavailable revenues.

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

<u>Governmental activities:</u>	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Capital assets not being depreciated:				
Land	\$ 1,706,222			\$ 1,706,222
Construction in progress	<u>1,040,618</u>	\$ <u>2,212,518</u>	\$ <u>(1,544,858)</u>	<u>1,708,278</u>
Total capital assets not being depreciated	<u>2,746,840</u>	<u>2,212,518</u>	<u>(1,544,858)</u>	<u>3,414,500</u>
Capital assets being depreciated:				
Infrastructure	14,487,272	1,544,858		16,032,130
Buildings and improvements	12,520,751	444,894		12,965,645
Machinery, equipment and vehicles	<u>5,679,753</u>	<u>393,792</u>		<u>6,073,545</u>
Total capital assets being depreciated	<u>32,687,776</u>	<u>2,383,544</u>		<u>35,071,320</u>
Less accumulated depreciation for:				
Infrastructure	(3,992,249)	(642,751)		(4,635,000)
Buildings and improvements	(6,700,832)	(453,945)		(7,154,777)
Machinery, equipment and vehicles	<u>(4,541,760)</u>	<u>(257,925)</u>		<u>(4,799,685)</u>
Total accumulated depreciation	<u>(15,234,841)</u>	<u>(1,354,621)</u>		<u>(16,589,462)</u>
Total capital assets being depreciated, net	<u>17,452,935</u>	<u>1,028,923</u>		<u>18,481,858</u>
Governmental activities capital assets, net	<u>\$ 20,199,775</u>	<u>\$ 3,241,441</u>	<u>\$ (1,544,858)</u>	<u>\$ 21,896,358</u>

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 - CAPITAL ASSETS (CONTINUED)

Business-Type activities:	July 1, 2015	Increases	Decreases	June 30, 2016
Capital assets not being depreciated:				
Land	\$ 709,084			\$ 709,084
Construction in progress	3,391,390	\$ 221,927		3,613,317
Total capital assets not being depreciated	<u>4,100,474</u>	<u>221,927</u>		<u>4,322,401</u>
Capital assets being depreciated:				
Land improvements	10,974,483	4,650		10,979,133
Buildings and improvements	589,171			589,171
Water system and improvements	14,532,599	41,400		14,573,999
Wastewater plant and improvements	13,030,917			13,030,917
Machinery, equipment and vehicles	<u>2,043,168</u>	<u>6,005</u>		<u>2,049,173</u>
Total capital assets being depreciated	<u>41,170,338</u>	<u>52,055</u>		<u>41,222,393</u>
Less accumulated depreciation for:				
Land improvements	(7,999,719)	(386,236)		(8,385,955)
Buildings and improvements	(390,460)	(13,896)		(404,356)
Water system and improvements	(7,908,492)	(384,125)		(8,292,617)
Wastewater plant and improvements	(11,184,063)	(455,880)		(11,639,943)
Machinery, equipment and vehicles	<u>(1,753,230)</u>	<u>(60,628)</u>		<u>(1,813,858)</u>
Total accumulated depreciation	<u>(29,235,964)</u>	<u>(1,300,765)</u>		<u>(30,536,729)</u>
Total capital assets being depreciated, net	<u>11,934,374</u>	<u>(1,248,710)</u>		<u>10,685,664</u>
Business-Type activities capital assets, net	<u>\$ 16,034,848</u>	<u>\$ (1,026,783)</u>	<u>\$</u>	<u>\$ 15,008,065</u>

Depreciation expense was charged to governmental activities' functions as follows:

Governmental activities:	
General government	\$ 153,892
Public safety	237,057
Highways and streets	626,843
Culture and recreation	284,418
Redevelopment and housing	<u>52,411</u>
Total depreciation expense - governmental activities	<u>\$ 1,354,621</u>
Business-Type activities:	
Airport	\$ 381,713
Water	402,785
Sanitation	46,933
Wastewater	<u>469,334</u>
Total depreciation expense - business-type activities	<u>\$ 1,300,765</u>

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - LONG-TERM DEBT

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

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Due Within 1 Year</u>
<u>Governmental activities:</u>					
Revenue bonds:					
Highway User Revenue Bonds, series 2005	\$ 1,805,000		\$ (230,000)	\$ 1,575,000	\$ 240,000
Capital leases	507,382		(127,685)	379,697	130,912
Compensated absences	540,364	\$ 263,885	(334,896)	469,353	284,970
Net pension liabilities	<u>6,589,559</u>	<u>7,781</u>		<u>6,597,340</u>	
Governmental activities long-term liabilities	<u>\$ 9,442,305</u>	<u>\$ 271,666</u>	<u>\$ (692,581)</u>	<u>\$ 9,021,390</u>	<u>\$ 655,882</u>
<u>Business-type activities:</u>					
Bond payable:					
Water revenue bonds	\$ 1,315,000		\$ (150,000)	\$ 1,165,000	\$ 165,000
WIFA loan payable	1,344,479		(69,826)	1,274,653	71,781
Capital leases payable	289,116		(94,185)	194,931	96,355
Landfill closure and postclosure costs payable	208,000		(13,000)	195,000	13,000
Compensated absences	54,336	\$ 58,319	(59,220)	53,435	53,435
Net pension liabilities	<u>1,028,685</u>	<u>23,995</u>		<u>1,052,680</u>	
Business-type activities long-term liabilities	<u>\$ 4,239,616</u>	<u>\$ 82,314</u>	<u>\$ (386,231)</u>	<u>\$ 3,935,699</u>	<u>\$ 399,571</u>

The City has highway user revenue and water revenue bonds issued to provide funds for the acquisition and construction of major capital facilities and to advance refund earlier bond issuances. The debt is repaid by the Highway User Revenue Fund and Water Fund, as applicable. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

Revenue bonds currently outstanding are as follows:

	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Remaining Maturities</u>	<u>Balance June 30, 2016</u>
<u>Governmental activities:</u>				
Highway User Revenue Bonds, series 2005	\$ <u>3,295,000</u>	3.375-5.00%	07/01/16-22	\$ <u>1,575,000</u>
<u>Business-type activities:</u>				
Water revenue bonds, series 1998A	2,600,000	5.00-6.625%	07/01/16-23	1,105,000
Water revenue bonds, series 1998B	400,000	4.10-5.75%	07/01/16-18	60,000
WIFA loan payable	<u>1,583,750</u>	2.8%	07/01/16-31	<u>1,274,653</u>
Total	<u>\$ 4,583,750</u>			<u>\$ 2,439,653</u>

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 - LONG-TERM DEBT (CONTINUED)

Principal and interest payments on the governmental activities revenue bonds payable at year-end are summarized as follows:

Year ending June 30:	Governmental Activities		Business-Type Activities			
	Highway User Revenue Bonds		Water Revenue Bonds		WIFA Loan payable	
	Principal	Interest	Principal	Principal	Principal	Interest
2017	\$ 240,000	\$ 62,094	\$ 165,000	\$ 58,460	\$ 71,781	\$ 35,690
2018	245,000	53,094	170,000	49,955	73,791	33,680
2019	260,000	43,600	150,000	41,500	75,857	31,614
2020	265,000	33,200	155,000	34,000	77,981	29,490
2021	280,000	22,600	165,000	26,250	80,165	27,307
2022-26	285,000	11,400	360,000	27,250	435,777	101,581
2027-31					459,301	37,060
Total	<u>\$ 1,575,000</u>	<u>\$ 225,988</u>	<u>\$ 1,165,000</u>	<u>\$ 237,415</u>	<u>\$ 1,274,653</u>	<u>\$ 296,422</u>

The City has pledged a portion of future motor fuel tax revenues to repay \$3.3 million in revenue bonds issued in 2005 to finance various infrastructure improvements to the City. The bonds are payable from motor fuel tax revenues of the City. Annual principal and interest payments on the bonds are estimated to require 27% of motor fuel tax revenues.

The City has pledged a portion of future water customer revenues, net of specified operating expenses to repay \$3 million in revenue bonds issued in 1998 to finance various improvements to the City's water system. The bonds are payable from water customer net revenues of the City. Annual principal and interest payments on the bonds are estimated to require 10% of water customer net revenues.

The City has a water revenue loan with the Water Infrastructure Finance Authority of Arizona (WIFA). The loan is being drawn as required by the City. The debt is secured by future net water revenue of the City. Annual principal and interest payments on the loan is estimated to require 20% of water customer net revenues. The City has \$40,998 left to draw down on the loan.

State and federal laws and regulations require that the City place a final cover on its landfill, which was closed in 1994, and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Since closing its landfill, the City has been negotiating with the Arizona Department of Environmental Quality in order to create a plan to accomplish proper closure. Based upon the City's current agreement with the Arizona Department of Environmental Quality, the City has estimated the total liability for landfill closure and postclosure care costs at June 30, 2016 to be \$195,000. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulation.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 - OBLIGATIONS UNDER LEASES

Capital Leases - The City has entered into lease agreements as a lessee for financing the acquisition of various vehicles and equipment items. These lease agreements qualify as capital leases for accounting purposes as the titles of the capital assets acquired transfer to the City at the end of the lease terms; and therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases that meet the City's capitalization threshold are as follows:

	Governmental Activities	Business-Type Activities
Asset:		
Water system and improvements		\$ 762,320
Machinery, equipment and vehicles	\$ 178,003	
Less: Accumulated depreciation	(141,696)	(613,095)
Total	\$ 36,307	\$ 149,225

Amortization expense on assets acquired through capital leases is included in depreciation expense in the government-wide and proprietary fund financial statements. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year ending June 30,	Governmental Activities	Business-Type Activities
2017	\$ 139,423	\$ 100,428
2018	139,423	100,428
2019	116,313	
Total minimum payments required	395,159	200,856
Less: Amount representing interest	15,462	5,925
Present value of minimum lease payments	\$ 379,697	\$ 194,931

NOTE 9 - INTERFUND BALANCES, PAYABLES AND TRANSFERS

As of June 30, 2016, the Housing fund has a payable of \$31,294 due to the General fund to reimburse expenditures. The interfund advance was a loan from the Sanitation Fund to the Water Fund of \$227,232 to finance construction of a dredge basin. The advance is payable over ten years at a rate of 2.8%. Interfund transfers for the year ended June 30, 2016 consisted of the following:

Transfer To	Transfer From Capital Projects Fund
General Fund	\$ 54,157
Highway User Revenue Fund	870
Total	\$ 55,027

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 - CONTINGENCIES

A. Risk Management

The City of Winslow, Arizona, is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for \$2,000,000 per occurrence on a claims made basis, with an aggregate limit of \$2,000,000. No significant reduction in insurance coverage occurred during the year and no settlements

exceeded insurance coverage during any of the past three fiscal years.

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

B. Commitments

The City had contractual commitments related to various capital projects at June 30, 2016. The City had spent \$3,895,410 on these projects, and had remaining commitments with contractors of \$566,670.

Project	Spent-to-date	Estimated remaining
Route 66 Renaissance V	\$ 619,297	\$ 138,683
WWTP Renovations Phase I	3,019,671	
WWTP Renovations Phase II	114,043	
Winslow Transcon Lane South	44,704	123,296
Runway 4-22 Rehabilitation	<u>97,695</u>	<u>304,691</u>
Total	<u>\$ 3,895,410</u>	<u>\$ 566,670</u>

The City has committed projects that will be funded through a loan to the City from the Water Infrastructure Authority of Arizona (WIFA) in the amount of \$1,583,750. As of June 30, 2016, the City spent and drew down \$1,542,752. The WIFA funds, negotiated as a loan, have an available balance remaining to draw down in the amount of \$40,998. Annual principal and semi-annual interest payments will be due through 2031.

C. Contingencies

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the two plans described below. 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	Government Activities	Business-Type Activities	Total
Net pension assets	\$ 3,508,996		\$ 3,508,996
Net pension liabilities	6,597,340	\$ 1,052,680	7,650,020
Deferred outflows of resources	1,762,389	110,493	1,872,882
Deferred inflows of resources	1,866,628	120,817	1,987,445
Pension expense	223,600	48,437	272,037

The City's accrued payroll and employee benefits includes \$29,170 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the City reported \$688,106 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

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

Benefits Provided - The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefits terms.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

ASRS	Retirement Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 months of last 120 months
Benefit percent per year of 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, active ASRS members were required by statute 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, 0.5 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll.

The City's contributions to the pension plan for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS Year ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2016	\$ 12,173	\$ 2,922
2015	13,759	2,798
2014	14,028	5,611

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

During fiscal year 2016, the City paid for ASRS pension and OPEB contributions as follows: 73% from the General Fund, 10% from the Water Fund, 5% from the Sanitation Fund, 10% from the Wastewater Fund, and 2% from the Internal Service Fund.

Pension Liability - At June 30, 2016, the City reported a liability of \$4,210,712 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 reported liability at June 30, 2016, increased by \$45,996 from the City's prior year liability of \$4,164,716 because of changes in the ASRS' net pension liability and the City's proportionate share of that liability. The ASRS' publicly available financial report provides details on the change in the net pension liability.

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 employer contributions for the year ended June 30, 2015. The City's proportion measured as of June 30, 2015, was 0.027030 percent, which was an decrease of 0.001116 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 \$193,749. 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	\$ 114,901	\$ 220,646
Net difference between projected and actual earnings on pension plan investments		134,944
Changes in proportion and differences between City contributions and proportionate share of contributions	32,308	127,684
City contributions subsequent to the measurement date	<u>303,905</u>	
Total	<u>\$ 451,114</u>	<u>\$ 483,274</u>

The \$303,905 reported as deferred outflows of resources related to ASRS pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

Year ending June 30,	
2017	\$ (122,546)
2018	(201,813)
2019	(109,119)
2020	97,413

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

ASRS	
Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 20, 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 rates	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		Long-Term
Asset Class	Target Allocation	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%	

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.

CITY OF WINSLOW, ARIZONA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

ASRS	<u>1% Decrease (7%)</u>	Current <u>Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
The City's proportionate share of the net pension liability	\$ 5,517,471	\$ 4,210,712	\$ 3,315,153

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 Description - The Public Safety Personnel Retirement System (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The PSPRS issues a publicly available financial report that include their financial statements and required supplementary information for the PSPRS and CORP plans. 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 benefits terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 months of last 20 years	Highest 60 months of last 20 years
Benefit percent:		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited 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, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit:		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, 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 Police	PSPRS Fire
Inactive employees or beneficiaries currently receiving benefits	8	2
Inactive employees entitled to but not yet receiving benefits	6	1
Active employees	20	5
Total	34	8

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions and Annual OPEB Cost - State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contributions rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Police	PSPRS Fire
Active members—Pension	11.65%	11.65%
City:		
Pension	35.77%	10.76%
Health insurance premium benefit	0.00%	0.00%

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:

	PSPRS Police	PSPRS Fire
Pension		
Contributions made	\$ 399,421	\$ 43,894
Health Insurance Premium Benefit		
Annual OPEB cost	\$ 0	\$ 0
Contributions made	\$ 0	\$ 0

During fiscal year 2016, the City paid for PSPRS and OPEB contributions from the General Fund.

Pension Liability (Asset) - At June 30, 2016, the City reported the following net pension liabilities (and asset):

	Net Pension Liability (Asset)
PSPRS - Police	\$ 3,439,306
PSPRS - Fire	(3,508,996)

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 County's net pension liability as a result of the statutory adjustments is not known.

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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 rates	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:

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

Pension Discount Rates - The discount rate used to measure the PSPRS total pension liability 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 WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net Pension Liability (Asset) are as follows for the year ended June 30, 2016:

	Total Pension Liability (Asset)	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability (Asset)
	(a)	(b)	(a) – (b)
<u>PSPRS - Police:</u>			
Balances at June 30, 2015	\$ 8,717,151	\$ 5,263,624	\$ 3,453,527
Changes for the year:			
Service cost	181,547		181,547
Interest on the total pension liability	677,465		677,465
Changes of benefit terms	0		
Differences between expected and actual experience in the measurement of the pension liability	(322,456)		(322,456)
Changes of assumptions or other inputs	0		
Contributions—employer		243,243	(243,243)
Contributions—employee		123,792	(123,792)
Net investment income		193,154	(193,154)
Benefit payments, including refunds of employee contributions	(355,596)	(355,596)	
Administrative expense		(5,091)	5,091
Other changes		(4,321)	4,321
Net changes	<u>180,960</u>	<u>195,181</u>	<u>(14,221)</u>
Balances at June 30, 2016	<u>\$ 8,898,111</u>	<u>\$ 5,458,805</u>	<u>\$ 3,439,306</u>
<u>PSPRS - Fire:</u>			
Balances at June 30, 2015	\$ 3,074,634	\$ 5,838,389	\$ (2,763,755)
Changes for the year:			
Service cost	58,753		58,753
Interest on the total pension liability	237,616		237,616
Changes of benefit terms	0		
Differences between expected and actual experience in the measurement of the pension liability	(768,502)		(768,502)
Changes of assumptions or other inputs	0		
Contributions—employer		36,862	(36,862)
Contributions—employee		35,148	(35,148)
Net investment income		212,441	(212,441)
Benefit payments, including refunds of employee contributions	(154,108)	(154,108)	
Administrative expense		(5,566)	5,566
Other changes		(5,777)	5,777
Net changes	<u>(626,241)</u>	<u>119,000</u>	<u>(745,241)</u>
Balances at June 30, 2016	<u>\$ 2,448,393</u>	<u>\$ 5,957,389</u>	<u>\$ (3,508,996)</u>

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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%, 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 or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
PSPRS - Police			
Rate	6.85%	7.85%	8.85%
Net pension liability	4,474,525	3,439,306	2,576,893
PSPRS - Fire			
Rate	6.85%	7.85%	8.85%
Net pension (asset)	(3,265,097)	(3,508,996)	(3,716,612)

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:

	<u>Pension Expense</u>
PSPRS - Police	\$ 340,762
PSPRS - Fire	(262,474)

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
PSPRS - Police		
Differences between expected and actual experience		\$ 482,915
Changes of assumptions	\$ 448,182	
Net difference between projected and actual earnings on pension plan investments	176,096	158,813
City contributions subsequent to the measurement date	399,421	
Total	<u>\$ 1,023,699</u>	<u>\$ 641,728</u>
PSPRS - Fire		
Differences between expected and actual experience		\$ 697,284
Changes of assumptions	\$ 172,144	
Net difference between projected and actual earnings on pension plan investments	193,764	174,826
City contributions subsequent to the measurement date	43,894	
Total	<u>\$ 409,802</u>	<u>\$ 872,110</u>

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The amounts reported as deferred outflows of resources related to pensions resulting from city contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase in the net pension asset) in the year ended 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:

Year ending June 30,	PSPRS Police	PSPRS Fire
2017	\$ 9,404	\$ (80,392)
2018	9,404	(80,392)
2019	(15,570)	(80,390)
2020	(20,412)	(22,116)
2021	(276)	(70,557)
Thereafter		(172,355)

Agent Plan OPEB Trend Information - The table below presents the annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS - Police			
2016	\$ 0	100%	\$ 0
2015	21,204	100%	0
2014	20,149	100%	0
PSPRS - Fire			
2016	\$ 0	100%	\$ 0
2015	5,110	100%	0
2014	3,000	100%	0

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

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Projections of benefits are based on (1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2016 contribution requirements, are as follows:

PSPRS - 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%
Wage growth	4%

Agent Plan OPEB Funded Status - The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow.

	PSPRS Police	PSPRS Fire
Actuarial value of assets (a)	\$ 322,595	\$ 276,456
Actuarial accrued liability (b)	264,484	42,199
Unfunded actuarial accrued liability (funding excess) (b) – (a)	(58,111)	(234,257)
Funded ratio (a)/(b)	121.97 %	655.12 %
Annual covered payroll (c)	1,104,193	303,805
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll (b) – (a) / (c)	(5.26)%	(77.11)%

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

CITY OF WINSLOW, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

PSPRS - OPEB Funded Status

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	21 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%–8%
Wage growth	4%

Firefighters' Relief and Pension Fund

The City of Winslow, Arizona Firefighters' Relief and Pension Fund is a defined contribution pension plan administered by the City and a board of trustees for the City's volunteer firefighters.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. A volunteer firefighter who has served for 15 years or more shall be eligible to receive retirement benefits as determined by the Board of Trustees. Such pensions, if paid, may be increased or decreased in amount, or discontinued at the discretion of the Board of Trustees. Pension and relief benefits may only be paid from the income of the trust fund. However, a firefighter who leaves service without eligibility for retirement benefits is entitled to all previous deductions from his salary plus interest at a rate determined by the Board of Trustees. As established by state statute, in lieu of another acceptable pension plan, all volunteer firefighters must participate in the pension plan from the date they enter service. During the fiscal year ended June 30, 2016, the City contributed \$1,364 and the volunteer firefighters contributed \$1,364 to the plan.

No pension provision changes occurred during the year that affected the required contributions made by the City or its voluntary firefighters. The Firefighters' Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year.

NOTE 12 - SUBSEQUENT EVENT

In August 2016, the City issued \$6,860,000 of waste water revenue bonds. The purpose of the bond issuance is to fund construction of the wastewater treatment plant expansion.

In December 2016, the City signed a contract with a construction company for the commitment amount of \$6,700,000 to construct the wastewater treatment plant expansion.

OTHER REQUIRED SUPPLEMENTARY INFORMATION



CITY OF WINSLOW, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Sales taxes	\$ 3,295,000	\$ 3,295,000	\$ 3,634,440	\$ 339,440
Property taxes	360,000	360,000	357,635	(2,365)
Franchise taxes	220,000	220,000	176,181	(43,819)
Intergovernmental revenue	2,947,437	2,947,437	2,813,384	(134,053)
Fines and forfeits	61,500	61,500	36,415	(25,085)
Licenses and permits	27,500	27,500	40,771	13,271
Charges for services	780,400	780,400	839,877	59,477
Rents and royalties	15,000	15,000	34,093	19,093
Contributions and donations			22,874	22,874
Investment income	15,000	15,000	29,105	14,105
Miscellaneous	<u>12,000</u>	<u>12,000</u>	<u>41,670</u>	<u>29,670</u>
Total revenues	<u>7,733,837</u>	<u>7,733,837</u>	<u>8,026,445</u>	<u>292,608</u>
EXPENDITURES:				
General government:				
Mayor and council	109,712	109,712	99,437	10,275
Court	123,155	123,155	125,098	(1,943)
General administration	338,139	338,139	422,891	(84,752)
City clerk	128,109	128,109	133,817	(5,708)
City attorney	94,500	94,500	94,502	(2)
Finance	273,509	273,509	309,978	(36,469)
Human resources	145,196	145,196	136,010	9,186
Parks and facilities				
maintenance	1,337,052	1,337,052	1,499,525	(162,473)
Planning, zoning and building	352,223	352,223	347,173	5,050
Non-departmental	<u>943,000</u>	<u>943,000</u>	<u>938,677</u>	<u>4,323</u>
Total general government	<u>3,844,595</u>	<u>3,844,595</u>	<u>4,107,108</u>	<u>(262,513)</u>
Public safety:				
Police	3,219,434	3,219,434	3,239,145	(19,711)
Fire	<u>825,529</u>	<u>825,529</u>	<u>1,117,181</u>	<u>(291,652)</u>
Total public safety	<u>4,044,963</u>	<u>4,044,963</u>	<u>4,356,326</u>	<u>(311,363)</u>
Culture and recreation:				
Library	230,812	230,812	226,227	4,585
Recreation			246,127	(246,127)
Art council			<u>4,705</u>	<u>(4,705)</u>
Total culture and recreation	<u>230,812</u>	<u>230,812</u>	<u>477,059</u>	<u>(246,247)</u>
Total expenditures	<u>8,120,370</u>	<u>8,120,370</u>	<u>8,940,493</u>	<u>(820,123)</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (386,533)	\$ (386,533)	\$ (914,048)	\$ (527,515)

(CONTINUED)

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 YEAR ENDED JUNE 30, 2016

(CONTINUED)

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
OTHER FINANCING SOURCES				
Transfers in	<u> </u>	<u> </u>	\$ <u>54,157</u>	\$ <u>54,157</u>
Total other financing sources	<u> </u>	<u> </u>	<u>54,157</u>	<u>54,157</u>
Net changes in fund balance	\$ (386,533)	\$ (386,533)	(859,891)	(473,358)
Fund balance, beginning of year	<u> </u>	<u> </u>	<u>3,374,308</u>	<u>3,374,308</u>
Fund balance, end of year	<u>\$ (386,533)</u>	<u>\$ (386,533)</u>	<u>\$ 2,514,417</u>	<u>\$ 2,900,950</u>

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 BUDGETARY COMPARISON SCHEDULE - HIGHWAY USER REVENUE FUND
 YEAR ENDED JUNE 30, 2016

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental revenue	\$ 1,223,195	\$ 1,223,195	\$ 1,280,964	\$ 57,769
Charges for services	21,000	21,000	20,720	(280)
Investment income	10,000	10,000	24,631	14,631
Contributions and donations			352,956	352,956
Miscellaneous			1,581	1,581
Total revenues	<u>1,254,195</u>	<u>1,254,195</u>	<u>1,680,852</u>	<u>426,657</u>
EXPENDITURES:				
Highway and streets	1,776,989	1,776,989	2,145,714	(368,725)
Debt service:				
Principal retirement	221,434	221,434	229,996	8,562
Interest on long-term debt	<u>79,170</u>	<u>79,170</u>	<u>70,608</u>	<u>(8,562)</u>
Total expenditures	<u>2,077,593</u>	<u>2,077,593</u>	<u>2,446,318</u>	<u>(368,725)</u>
Excess (deficiency) of revenues over (under) expenditures	(823,398)	(823,398)	(765,466)	57,932
OTHER FINANCING SOURCES:				
Transfers in	<u>300,604</u>	<u>300,604</u>	<u>870</u>	<u>(299,734)</u>
Total other financing sources	<u>300,604</u>	<u>300,604</u>	<u>870</u>	<u>(299,734)</u>
Net changes in fund balance	(522,794)	(522,794)	(764,596)	(241,802)
Fund balance, beginning of year			<u>1,192,335</u>	<u>1,192,335</u>
Fund balance, end of year	<u>\$ (522,794)</u>	<u>\$ (522,794)</u>	<u>\$ 427,739</u>	<u>\$ 950,533</u>

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 NOTES TO BUDGETARY COMPARISON SCHEDULE
 JUNE 30, 2016

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

The accompanying Budgetary Comparison Schedules are prepared on a modified accrual basis of accounting.

Expenditures may not legally exceed the expenditure limitation described below for all fund types as a whole. For management purposes, the City adopts a budget by department for the General Fund and in total by fund for other funds (except for the Housing Fund). The City Manager, subject to City Council approval, may at any time transfer any unencumbered appropriation balance or option thereof between a department or activity. The adopted budget can not be amended in any way without City Council approval.

NOTE 2 - BUDGETARY INFORMATION

The City Council follows these procedures in establishing the annual budget:

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
2. Public hearings are conducted to obtain taxpayer comments.
3. State law requires that, prior to April 1, the Economic Estimates Commission provide the City with a final expenditure limit for the coming fiscal year. To ensure compliance with the expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited basic financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. §41-1279.07).

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

The City Council did not adopt a budget for the Housing Fund.

NOTE 3 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

At year end, the City had expenditures in the General Fund that exceeded the budget, however, this does not constitute a violation of any legal provisions.

Fund/Department	Excess
General Fund:	
Court	\$ 1,943
General administration	84,752
Finance	36,469
Parks and facilities maintenance	162,473
Police	19,711
Fire	291,652
Recreation	246,127
Art council	4,705

The City will more closely monitor these expenditures to ensure the appropriated budget is not exceeded. The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenue, or both. However, the City's total expenditures on a budgetary basis did not exceed budgeted appropriations. Cash was available to cover the overexpenditures listed above.

CITY OF WINSLOW, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 COST-SHARING PENSION PLANS
 JUNE 30, 2016

Arizona State Retirement System	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
City's proportion of the net pension liability	0.027030%	0.028146%	Information
City's proportionate share of the net pension liability	\$ 4,210,712	\$ 4,164,716	not available
City's covered payroll	\$ 2,332,038	\$ 2,338,065	
City's proportionate share of the net pension liability as a percentage of its covered payroll	180.56 %	178.13 %	
Plan fiduciary net position as a percentage of the total pension liability	68.35 %	69.49 %	

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY (ASSET)
AND RELATED RATIOS - AGENT PENSION PLANS
JUNE 30, 2016

PSPRS - Police	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 181,547	\$ 210,068	Information not available
Interest on the total pension liability	677,465	600,558	
Changes of benefit terms	0	151,724	
Differences between expected and actual experience in the measurement of the pension liability	(322,456)	(391,595)	
Changes of assumptions or other inputs	0	780,390	
Benefit payments, including refunds of employee contributions	(355,596)	(358,756)	
Net change in total pension liability	180,960	992,389	
Total pension liability—beginning	8,717,151	7,724,762	
Total pension liability—ending (a)	\$ 8,898,111	\$ 8,717,151	
Plan fiduciary net position:			
Contributions—employer	\$ 243,243	\$ 209,534	
Contributions—employee	123,792	112,725	
Net investment income	193,154	647,380	
Benefit payments, including refunds of employee contributions	(355,596)	(358,756)	
Administrative expense	(5,091)	(5,214)	
Other changes	(4,321)	(92,784)	
Net change in plan fiduciary net position	195,181	512,885	
Plan fiduciary net position—beginning	5,263,624	4,750,739	
Plan fiduciary net position—ending (b)	\$ 5,458,805	\$ 5,263,624	
City's net pension liability (asset)—ending (a) – (b)	\$ 3,439,306	\$ 3,453,527	
Plan fiduciary net position as a percentage of the total pension liability	61.35 %	60.38 %	
Covered-employee payroll	\$ 1,104,193	\$ 925,436	
City's net pension liability (asset) as a percentage of covered-employee payroll	311.48 %	373.18 %	

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY (ASSET)
 AND RELATED RATIOS - AGENT PENSION PLANS
 JUNE 30, 2016

(CONTINUED)

PSPRS - Fire	Reporting Fiscal Year (Measurement Date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability:			
Service cost	\$ 58,753	\$ 53,717	Information not available
Interest on the total pension liability	237,616	210,709	
Changes of benefit terms	0	42,560	
Differences between expected and actual experience in the measurement of the pension liability	(768,502)	(28,678)	
Changes of assumptions or other inputs	0	224,166	
Benefit payments, including refunds of employee contributions	<u>(154,108)</u>	<u>(170,353)</u>	
Net change in total pension liability	(626,241)	332,121	
Total pension liability—beginning	<u>3,074,634</u>	<u>2,742,513</u>	
Total pension liability—ending (a)	<u>\$ 2,448,393</u>	<u>\$ 3,074,634</u>	
Plan fiduciary net position:			
Contributions—employer	\$ 36,862	\$ 36,888	
Contributions—employee	35,148	34,510	
Net investment income	212,441	712,653	
Benefit payments, including refunds of employee contributions	(154,108)	(170,353)	
Administrative expense	(5,566)		
Administrative expense	<u>(5,777)</u>	<u>(5,739)</u>	
Net change in plan fiduciary net position	119,000	607,959	
Plan fiduciary net position—beginning	<u>5,838,389</u>	<u>5,230,430</u>	
Plan fiduciary net position—ending (b)	<u>\$ 5,957,389</u>	<u>\$ 5,838,389</u>	
City's net pension liability (asset)—ending (a) – (b)	\$ (3,508,996)	\$ (2,763,755)	
Plan fiduciary net position as a percentage of the total pension liability	243.32 %	189.89 %	
Covered payroll	\$ 303,805	\$ 342,689	
City's net pension liability (asset) as a percentage of covered payroll	(1,155.02)%	(806.49)%	

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
 JUNE 30, 2016

	Reporting Fiscal Year			2013 through 2007
	2016	2015	2014	
ASRS				
Statutorily required contribution	\$ 264,162	\$ 253,959	\$ 250,173	Information not available
City's contributions in relation to the statutorily required contribution	<u>264,162</u>	<u>253,959</u>	<u>250,173</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered payroll	\$ 2,434,673	\$ 2,332,038	\$ 2,338,065	
City's contributions as a percentage of covered payroll	10.85 %	10.89 %	10.70 %	
	Reporting Fiscal Year			
	2016	2015	2014	2013 through 2007
PSPRS - Police				
Actuarially determined contribution	\$ 399,421	\$ 242,783	\$ 216,439	Information not available
City's contributions in relation to the actuarially determined contribution	<u>399,421</u>	<u>242,783</u>	<u>216,439</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered payroll	\$ 1,116,637	\$ 1,104,193	\$ 925,436	
City's contributions as a percentage of covered payroll	35.77 %	21.99 %	23.39 %	
	Reporting Fiscal Year			
	2016	2015	2014	2013 through 2007
PSPRS - Fire				
Actuarially determined contribution	\$ 43,894	\$ 31,700	\$ 29,142	Information not available
City's contributions in relation to the actuarially determined contribution	<u>43,894</u>	<u>31,700</u>	<u>29,142</u>	
City's contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	
City's covered payroll	\$ 407,937	\$ 303,805	\$ 342,689	
City's contributions as a percentage of covered payroll	10.76 %	10.43 %	8.50 %	

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 NOTES TO THE CITY'S PENSION PLAN SCHEDULES
 JUNE 30, 2016

NOTE 1 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 82, Pension Issues. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

NOTE 2 – ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS - Police and PSPRS - Fire 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	22 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 2013 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%.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0%. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5%
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

CITY OF WINSLOW, ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
 JUNE 30, 2016

Health Insurance Premium Benefit - PSPRS Police

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 a percentage of covered payroll (b) – (a)/(c)
6/30/15	\$ 322,595	\$ 264,484	\$ (58,111)	121.97 %	\$ 1,104,193	(5.26)%
6/30/14	295,355	228,502	(66,853)	129.26 %	925,436	(7.22)%
6/30/13	0	243,560	243,560	0.00 %	1,078,727	22.58 %

Health Insurance Premium Benefit - PSPRS Fire

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 a percentage of covered payroll (b) – (a)/(c)
6/30/15	\$ 276,456	\$ 42,199	\$ (234,257)	655.12 %	\$ 303,805	(77.11)%
6/30/14	260,220	62,201	(198,019)	418.35 %	342,689	(57.78)%
6/30/13	0	59,994	59,994	0.00 %	294,289	20.39 %

See accompanying notes to schedule.

CITY OF WINSLOW, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULE OF AGENT OPEB PLANS' FUNDING PROGRESS
JUNE 30, 2016

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.