

CITY OF WINSLOW, ARIZONA
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2011

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Winslow, Arizona (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Winslow, Arizona, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2011, which represents a change in accounting principle. In addition, as described in Note 3.G., the City also made prior period adjustments to correct errors in the previously issued financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2012 on our consideration of the City's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 - 11, the Public Safety Personnel Retirement System Schedule of Funding Progress on page 53, and the General Fund, Highway User Revenue Fund, and CDBG Fund Budget and Actual Statements on pages 54 - 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



CliftonLarsonAllen LLP

Mesa, Arizona
February 13, 2012

REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

We (the City of Winslow, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2011. 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.

FINANCIAL HIGHLIGHTS

- ◆ The assets of the City of Winslow, Arizona exceeded its liabilities at the close of the most recent fiscal year by \$41,155,585 (net assets). Of this amount \$7,906,052 (unrestricted net assets) 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 of Winslow, Arizona's governmental funds reported combined ending fund balances of \$6,901,310, a decrease of \$923,159 in comparison with the prior year.
- ◆ At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,172,003 or 27% of total General Fund expenditures.
- ◆ General Fund revenues (on a budgetary basis) exceeded budgeted revenues by \$193,943 for fiscal year ending June 30, 2011. Additionally, budgetary basis expenditures were only 98.9% (\$88,416 (1.1%) in savings) of the final budget in the General Fund.
- ◆ General Fund revenues were less than expenditures by \$1,845,715; a positive variance of \$282,359 from the final budget.

OVERVIEW OF THE 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 assets presents information on all of the City of Winslow, Arizona's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the City of Winslow, Arizona is improving or deteriorating.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

The statement of activities presents information showing how the government'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 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 12 - 13 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 14 - 17 of this report.

- ◆ *Proprietary Funds* – The City of Winslow, Arizona maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Winslow, Arizona uses enterprise funds to account for its airport, water, sanitation and wastewater operations.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 18 - 21 of this report.

- ◆ *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 On-call 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 on pages 22 - 23 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements (pages 24 - 52) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required Supplementary Information Other Than MD&A

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 53 - 56.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Government-Wide Financial Analysis

Net Assets

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2011 showing that assets exceeded liabilities by \$41,155,585.

**Table A-1
Net Assets
June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010	2011	2010 (Restated)
Current and Other Assets	\$ 8,851,619	\$ 8,957,129	\$ 7,030,145	\$ 6,675,138	\$ 15,881,764	\$ 15,632,267
Capital Assets						
Non-depreciable	2,827,950	1,263,772	709,084	709,084	3,537,034	1,972,856
Depreciable	16,033,402	15,448,980	14,305,742	14,854,604	30,339,144	30,303,584
Total Assets	<u>27,712,971</u>	<u>25,669,881</u>	<u>22,044,971</u>	<u>22,238,826</u>	<u>49,757,942</u>	<u>47,908,707</u>
Other Liabilities	1,899,397	1,119,880	543,894	579,977	2,443,291	1,699,857
Noncurrent Liabilities						
Due Within One Year	450,655	511,793	268,509	243,322	719,164	755,115
Due in More Than One Year	2,690,634	2,855,309	2,749,268	2,975,090	5,439,902	5,830,399
Total Liabilities	<u>5,040,686</u>	<u>4,486,982</u>	<u>3,561,671</u>	<u>3,798,389</u>	<u>8,602,357</u>	<u>8,285,371</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	16,201,952	13,632,026	12,318,274	12,552,098	28,520,226	26,184,124
Restricted	4,729,307	5,363,655	-	-	4,729,307	5,363,655
Unrestricted	1,741,026	2,187,218	6,165,026	5,888,339	7,906,052	8,075,557
Total Net Assets	<u>\$ 22,672,285</u>	<u>\$ 21,182,899</u>	<u>\$ 18,483,300</u>	<u>\$ 18,440,437</u>	<u>\$ 41,155,585</u>	<u>\$ 39,623,336</u>

Net assets consist of three components. The largest portion of the City of Winslow, Arizona's net assets (69%) 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 assets (11%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$7,906,052) 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 assets for the government as a whole.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

Changes in Net Assets

**Table A-2
Changes in Net Assets
June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (Restated)	2011	2010	2011	2010 (Restated)
REVENUES						
Program Revenues:						
Charges for Services	\$ 488,733	\$ 540,498	\$ 4,092,594	\$ 4,100,511	\$ 4,581,327	\$ 4,641,009
Operating Grants and Contributions	3,386,553	3,316,408	-	114,317	3,386,553	3,430,725
Capital Grants and Contributions	52,424	173,082	179,546	291,547	231,970	464,629
General Revenues:						
Sales taxes	4,398,157	4,517,513	-	-	4,398,157	4,517,513
Property taxes	340,813	301,538	-	-	340,813	301,538
Franchise taxes	238,611	236,560	150,000	75,000	388,611	311,560
State revenue sharing	2,225,856	2,562,948	-	-	2,225,856	2,562,948
Unrestricted Investment Earnings	73,381	240,019	86,046	130,428	159,427	370,447
Miscellaneous	64,328	29,866	-	-	64,328	29,866
Total Revenues	<u>11,268,856</u>	<u>11,918,432</u>	<u>4,508,186</u>	<u>4,711,803</u>	<u>15,777,042</u>	<u>16,630,235</u>
EXPENSES						
General Government	2,965,635	3,184,727	-	-	2,965,635	3,184,727
Public Safety	3,628,366	3,734,421	-	-	3,628,366	3,734,421
Highways and Streets	1,206,039	1,282,296	-	-	1,206,039	1,282,296
Culture and Recreation	593,376	450,284	-	-	593,376	450,284
Redevelopment and Housing	1,187,178	1,263,385	-	-	1,187,178	1,263,385
Interest and Fiscal Charges	133,252	145,019	-	-	133,252	145,019
Airport	-	-	327,832	444,595	327,832	444,595
Water	-	-	1,546,454	1,428,589	1,546,454	1,428,589
Sanitation	-	-	1,159,435	1,260,802	1,159,435	1,260,802
Wastewater	-	-	1,497,226	1,453,919	1,497,226	1,453,919
Total Expenses	<u>9,713,846</u>	<u>10,060,132</u>	<u>4,530,947</u>	<u>4,587,905</u>	<u>14,244,793</u>	<u>14,648,037</u>
CHANGE IN NET ASSETS						
BEFORE TRANSFERS	1,555,010	1,858,300	(22,761)	123,898	1,532,249	1,982,198
Transfers	(65,624)	(274,616)	65,624	274,616	-	-
CHANGE IN NET ASSETS	<u>1,489,386</u>	<u>1,583,684</u>	<u>42,863</u>	<u>398,514</u>	<u>1,532,249</u>	<u>1,982,198</u>
Net Assets - Beginning of Year	21,182,899	19,599,215	18,440,437	18,041,923	39,623,336	37,641,138
NET ASSETS - END OF YEAR	<u>\$ 22,672,285</u>	<u>\$ 21,182,899</u>	<u>\$ 18,483,300</u>	<u>\$ 18,440,437</u>	<u>\$ 41,155,585</u>	<u>\$ 39,623,336</u>

Governmental Activities. Governmental activities increased the City's net assets by \$1,489,386 in fiscal year 2011. A key factor of this increase was a planned reduction of expenditures due to anticipated declines in sales tax and state shared revenues.

Business-Type Activities. Business-type activities increased the City's net assets by \$42,863 in fiscal year 2011.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$6,901,310, a decrease of \$923,159 in comparison with the prior year. Approximately 31% of this total amount (\$2,172,003) 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, 2011 fund balances were as follows:

**Table A-3
Fund Balances**

Fund	Balance	Increase (Decrease) From 2009-10
General Fund	\$ 2,172,003	\$ (325,031)
Highway User Revenue Fund	3,134,011	(1,265,677)
Housing Fund	162,182	(99,822)
CDBG Fund	-	-
Capital Projects Fund	1,433,114	767,371

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 \$2,172,003, while total fund balance reached \$6,901,310. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 18% of total expenditures, while total fund balance represents 57% of that same amount.

The fund balance of the City of Winslow, Arizona's General Fund decreased 320,966 as a result of various capital improvements that were deferred from the prior year and completed in the current year.

The decrease in the Highway User Revenue Fund balance primarily resulted from the use of "Turnback funds the City received in 2005 to make improvements to Second and Third Street which was originally part of the Arizona State Highway System (Route 66).

The change in the Housing Fund was a result of a decline in fees from discontinuing management services for Winslow Crossing.

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

The Capital Projects Fund increased during the year as a result of unspent capital funds which will be carried over to the next fiscal year.

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 54 - 56. 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 \$6,346,720, on a budgetary basis, exceeded budgeted revenues of \$6,152,777 by \$193,943 while budgetary basis expenditures of \$8,192,435 were 99% of budgeted expenditures (savings of \$88,416). The excess of revenues over budgeted revenues was due to excess sales tax collections during 2011. The savings in expenditures was mostly a result of a delay in filling vacant employee positions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental activities as of June 30, 2011 amount to \$18,861,352 (net of accumulated depreciation), a net increase of 12.9% from the prior year. Capital assets for its business-type activities as of June 30, 2011 amount to \$15,014,826 (net of accumulated depreciation), a net decrease of 3.5%. 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.

During fiscal year ended June 30, 2011 the annual depreciation expense for governmental and business-type activities was \$1,132,792 and \$1,148,567, respectively. Additions to governmental and business-type activities capital assets during the fiscal year totaled \$3,325,862 and \$555,235, respectively. See Note 3.A.4. for further information regarding capital assets.

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

- ◆ Tactical equipment (\$19,193).
- ◆ A new computer server (\$5,568).
- ◆ Downtown Renaissance projects (\$1,929,071).
- ◆ Traffic signals on 2nd and 3rd street (\$19,492).
- ◆ Multipurpose field project (\$259,136).
- ◆ Concession stands and restrooms (\$557,383).
- ◆ Neighborhood walkways (\$127,027).
- ◆ City-wide sidewalk and street improvements and extension (\$259,671).
- ◆ Update to Airport Master Plan and runway improvements (\$163,577).
- ◆ Waterline improvements (\$116,489).
- ◆ Wastewater Treatment Plant modifications (\$255,676).

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

The following table provides a breakdown of the capital assets of the City at June 30, 2011 and 2010.

**Table A-4
Capital Assets (Net)
June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2010		2010		2010	
	2011	(Restated)	2011	2010	2011	(Restated)
Land	\$ 1,135,722	\$ 1,135,722	\$ 709,084	\$ 709,084	\$ 1,844,806	\$ 1,844,806
Construction in progress	1,692,228	128,050	-	-	1,692,228	128,050
Infrastructure	9,774,479	9,441,650	-	-	9,774,479	9,441,650
Buildings and improvements	4,866,678	4,290,355	52,133	58,763	4,918,811	4,349,118
Machinery, equipment and vehicles	1,392,245	1,716,975	954,520	993,990	2,346,765	2,710,965
Land improvements	-	-	4,437,345	4,547,917	4,437,345	4,547,917
Water system and improvements	-	-	4,921,790	5,088,370	4,921,790	5,088,370
Wastewater plant and improvements	-	-	3,939,954	4,165,564	3,939,954	4,165,564
Total Capital Assets	<u>\$ 18,861,352</u>	<u>\$ 16,712,752</u>	<u>\$ 15,014,826</u>	<u>\$ 15,563,688</u>	<u>\$ 33,876,178</u>	<u>\$ 32,276,440</u>

Long-Term Debt

At the end of the current fiscal year, the City of Winslow, Arizona had total long-term obligations outstanding of \$2,771,213 for governmental activities and \$2,696,552 for business-type activities. The outstanding debt is secured by pledges of specific revenue sources of the City.

During the fiscal year, the City's governmental activities debt decreased by \$260,101 (8.6%) and the business-type activities debt decreased by \$200,038 (6.9%). The decreases were due to regularly scheduled principal payments on the debt.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2011 and 2010. Further detail on the City's outstanding debt may be found in Note 3.D.

**Table A-5
Outstanding Long-Term Obligations
June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
	Highway User Revenue Bonds	\$ 2,630,000	\$ 2,820,000	\$ -	\$ -	\$ 2,630,000
Water Revenues Bonds	-	-	1,865,000	1,980,000	1,865,000	1,980,000
Capital Lease	141,213	211,314	243,025	276,583	384,238	487,897
Sale Leaseback Contract	-	-	588,527	640,007	588,527	640,007
Total Outstanding Debt	<u>\$ 2,771,213</u>	<u>\$ 3,031,314</u>	<u>\$ 2,696,552</u>	<u>\$ 2,896,590</u>	<u>\$ 5,467,765</u>	<u>\$ 5,927,904</u>

**CITY OF WINSLOW, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economic slowdown, coupled with the 2010 Census redistribution, has resulted in a 16% reduction in the City's State Shared Revenues in just the past two years, with another 12% reduction anticipated in fiscal year 2011-12. While our local sales tax revenue, the City's single largest revenue source, has decrease 7.5% in the past three years. The City has had to reduce personnel and operating budgets \$2.2 million, or 24%, in the last three budget years because of the reduced General Fund and HURF revenues.

On the other hand, Water and Wastewater rates will continue to increase over the next several years based on the acceptance of a utility rate study which was implemented by the City in early calendar year 2011. The increase revenues will enable the City to make much needed improvements in our infrastructure.

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
21 Williamson Avenue
Winslow, AZ 86047
(928) 289-5533

Or visit our website at:

www.ci.winslow.az.us

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BASIC FINANCIAL STATEMENTS

**CITY OF WINSLOW, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 4,309,605	\$ 3,334,700	\$ 7,644,305
Cash with Paying Agent	245,805	163,949	409,754
Investments	1,907,317	2,860,975	4,768,292
Restricted Assets	11,313	148,841	160,154
Property Tax Receivable	35,810	-	35,810
Accounts Receivable, Net	394,254	461,450	855,704
Accrued Interest Receivable	-	224	224
Intergovernmental Receivable	1,907,787	14,453	1,922,240
Inventories	10,478	23,717	34,195
Prepaid Items	8,083	-	8,083
Deferred Charges	21,167	21,836	43,003
Capital Assets:			
Non-Depreciable:	2,827,950	709,084	3,537,034
Depreciable:	16,033,402	14,305,742	30,339,144
Total Assets	<u>27,712,971</u>	<u>22,044,971</u>	<u>49,757,942</u>
LIABILITIES			
Accounts Payable	1,255,679	150,095	1,405,774
Accrued Salaries and Fringes	260,804	59,315	320,119
Accrued Interest Payable	55,805	65,643	121,448
Deposits	11,313	148,841	160,154
Deferred Revenue	48,718	5,000	53,718
Due to Other Governments	77,078	-	77,078
Matured Debt Principal Payable	190,000	115,000	305,000
Noncurrent Liabilities			
Due Within One Year	450,655	268,509	719,164
Due in More Than One Year	2,690,634	2,749,268	5,439,902
Total Liabilities	<u>5,040,686</u>	<u>3,561,671</u>	<u>8,602,357</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	16,201,952	12,318,274	28,520,226
Restricted for:			
Highways and Streets	3,134,011	-	3,134,011
Redevelopment and Housing	162,182	-	162,182
Capital Outlay	1,433,114	-	1,433,114
Unrestricted	1,741,026	6,165,026	7,906,052
Total Net Assets	<u>\$ 22,672,285</u>	<u>\$ 18,483,300</u>	<u>\$ 41,155,585</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 2,965,635	\$ 230,840	\$ 94,575	\$ -	\$ (2,640,220)	\$ -	\$ (2,640,220)
Public Safety	3,628,366	88,522	246,084	-	(3,293,760)	-	(3,293,760)
Highways and Streets	1,206,039	9,465	2,050,384	52,424	906,234	-	906,234
Culture and Recreation	593,376	62,492	3,064	-	(527,820)	-	(527,820)
Redevelopment and Housing	1,187,178	97,414	992,446	-	(97,318)	-	(97,318)
Interest and Fiscal Charges	133,252	-	-	-	(133,252)	-	(133,252)
Total Governmental Activities	<u>9,713,846</u>	<u>488,733</u>	<u>3,386,553</u>	<u>52,424</u>	<u>(5,786,136)</u>	<u>-</u>	<u>(5,786,136)</u>
Business-Type Activities:							
Airport	327,832	87,239	-	179,546	-	(61,047)	(61,047)
Water	1,546,454	1,720,433	-	-	-	173,979	173,979
Sanitation	1,159,435	958,172	-	-	-	(201,263)	(201,263)
Wastewater	1,497,226	1,326,750	-	-	-	(170,476)	(170,476)
Total Business-Type Activities	<u>4,530,947</u>	<u>4,092,594</u>	<u>-</u>	<u>179,546</u>	<u>-</u>	<u>(258,807)</u>	<u>(258,807)</u>
Total Primary Government	<u>\$ 14,244,793</u>	<u>\$ 4,581,327</u>	<u>\$ 3,386,553</u>	<u>\$ 231,970</u>	<u>(5,786,136)</u>	<u>(258,807)</u>	<u>(6,044,943)</u>
General Revenues:							
Taxes							
Sales taxes					4,398,157	-	4,398,157
Property taxes					340,813	-	340,813
Franchise taxes					238,611	150,000	388,611
Intergovernmental Revenues not restricted to specific programs							
State revenue sharing					957,268	-	957,268
State sales tax revenue sharing					753,047	-	753,047
Auto lieu tax revenue sharing					515,541	-	515,541
Unrestricted Investment Earnings					73,381	86,046	159,427
Miscellaneous					64,328	-	64,328
Transfers					(65,624)	65,624	-
Total General Revenues and Transfers					<u>7,275,522</u>	<u>301,670</u>	<u>7,577,192</u>
Change in Net Assets					1,489,386	42,863	1,532,249
Net Assets - Beginning, as Restated					21,182,899	18,440,437	39,623,336
Net Assets - Ending					<u>\$ 22,672,285</u>	<u>\$ 18,483,300</u>	<u>\$ 41,155,585</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011**

Assets	General	Highway User Revenue	Housing	CDBG	Capital Projects	Totals
Cash and Investments	\$ 1,399,136	\$ 1,451,472	\$ 292,394	\$ -	\$ 1,166,603	\$ 4,309,605
Cash with Paying Agent	-	245,805	-	-	-	245,805
Restricted Assets	300	-	11,013	-	-	11,313
Investments	476,829	1,430,488	-	-	-	1,907,317
Receivables						
Property Tax Receivable	35,810	-	-	-	-	35,810
Accounts Receivable	368,223	-	26,031	-	-	394,254
Intergovernmental Receivable	615,938	1,023,159	-	2,179	266,511	1,907,787
Due from Other Funds	96,410	-	-	-	-	96,410
Prepaid Items	-	-	8,083	-	-	8,083
Total Assets	<u>\$ 2,992,646</u>	<u>\$ 4,150,924</u>	<u>\$ 337,521</u>	<u>\$ 2,179</u>	<u>\$ 1,433,114</u>	<u>\$ 8,916,384</u>
 Liabilities and Fund Balance						
Liabilities						
Accounts Payable	\$ 460,263	\$ 771,108	\$ 21,181	\$ -	\$ -	\$ 1,252,552
Accrued Wages and Benefits	248,798	-	7,246	-	-	256,044
Interest Payable	-	55,805	-	-	-	55,805
Intergovernmental Payable	77,078	-	-	-	-	77,078
Due to Other Funds	-	-	94,231	2,179	-	96,410
Deferred Revenue	34,204	-	41,668	-	-	75,872
Customer Deposits Payable	300	-	11,013	-	-	11,313
Matured Debt Principal Payable	-	190,000	-	-	-	190,000
Total Liabilities	<u>820,643</u>	<u>1,016,913</u>	<u>175,339</u>	<u>2,179</u>	<u>-</u>	<u>2,015,074</u>
 Fund Balances						
Nonspendable	-	-	8,083	-	-	8,083
Restricted	-	3,134,011	154,099	-	1,433,114	4,721,224
Unassigned	2,172,003	-	-	-	-	2,172,003
Total Fund Balance	<u>2,172,003</u>	<u>3,134,011</u>	<u>162,182</u>	<u>-</u>	<u>1,433,114</u>	<u>6,901,310</u>
Total Liabilities and Balance	<u>\$ 2,992,646</u>	<u>\$ 4,150,924</u>	<u>\$ 337,521</u>	<u>\$ 2,179</u>	<u>\$ 1,433,114</u>	<u>\$ 8,916,384</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balances for Governmental Funds	\$	6,901,310
Amounts reported for governmental activities in the statement of activities are different because:		
Property taxes not collected within 60 days subsequent to fiscal year end are deferred in the governmental funds.		27,154
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		29,351,897
Less accumulated depreciation		(10,498,438)
Capital assets used in governmental activities		<u>18,853,459</u>
Deferred charges on issuance of long term liabilities are not financial resources and therefore are not reported in the governmental funds.		21,167
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Highway user revenue bonds		(2,630,000)
Deferred amount on refunding		119,706
Capital leases		(141,213)
Compensated absences		(487,707)
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 assets.		8,409
Total Net Assets of Governmental Activities	<u>\$</u>	<u>22,672,285</u>

See accompanying Notes to Basic Financial Statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Highway User Revenue	Housing	CDBG	Capital Projects	Totals
Revenue						
Taxes						
Sales Taxes	\$ 2,764,243	\$ -	\$ -	\$ -	\$ 1,633,914	\$ 4,398,157
Property Taxes	313,659	-	-	-	-	313,659
Franchise Taxes	238,611	-	-	-	-	238,611
Intergovernmental Revenue	2,565,450	2,050,384	992,446	52,424	-	5,660,704
Fines and Forfeits	58,296	-	-	-	-	58,296
Licenses and Permits	61,018	-	-	-	-	61,018
Charges for Services	250,907	9,465	97,414	-	-	357,786
Rents and Royalties	11,633	-	-	-	-	11,633
Contributions and Donations	4,129	-	-	-	-	4,129
Investment Earnings	21,623	48,877	372	-	2,509	73,381
Other	57,151	1,305	5,872	-	-	64,328
Total Revenue	6,346,720	2,110,031	1,096,104	52,424	1,636,423	11,241,702
Expenditures						
Current						
General Government	3,645,436	-	-	-	-	3,645,436
Public Safety	3,403,565	-	-	-	-	3,403,565
Highways and Streets	659,807	2,376,564	-	52,424	-	3,088,795
Culture and Recreation	427,514	-	-	-	-	427,514
Redevelopment and Housing	-	-	1,195,926	-	-	1,195,926
Debt Service						
Principal Retirement	46,104	190,000	-	-	-	236,104
Interest on Long-Term Debt	10,009	111,610	-	-	-	121,619
Total Expenditures	8,192,435	2,678,174	1,195,926	52,424	-	12,118,959
Excess (Deficiency) of Revenue Over Expenditures	(1,845,715)	(568,143)	(99,822)	-	1,636,423	(877,257)
Other Finance Sources (Uses)						
Transfers In	1,530,721	176,824	-	-	-	1,707,545
Transfers Out	(10,037)	(894,080)	-	-	(869,052)	(1,773,169)
Proceeds from Sale of Capital Assets	-	19,722	-	-	-	19,722
Total Other Finance Sources (Uses)	1,520,684	(697,534)	-	-	(869,052)	(45,902)
Net Change in Fund Balance	(325,031)	(1,265,677)	(99,822)	-	767,371	(923,159)
Fund Balance						
Beginning of Year	2,497,034	4,399,688	262,004	-	665,743	7,824,469
End of Year	<u>\$ 2,172,003</u>	<u>\$ 3,134,011</u>	<u>\$ 162,182</u>	<u>\$ -</u>	<u>\$ 1,433,114</u>	<u>\$ 6,901,310</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances-Total Governmental Funds \$ (923,159)

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.

Expenditures for capital assets	3,325,862
Less current year depreciation	(1,129,245)
Excess capital expenditures over depreciation	2,196,617

The governmental funds report proceeds received for the sale of assets. Conversely, the statement of activities reports the gain or loss on the sale of assets. (20,473)

Some revenues reported in the governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities.

Property Taxes	27,154
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these items are deferred and amortized over the term of the long-term debt in the statement of activities.

Principal payments on bonds	190,000
Principal payments on capital leases	46,104
Amortization of deferred amount on refunding	(10,882)
Amortization of deferred issue costs	(1,924)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Net increase in compensated absences	(26,385)
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund is reported with governmental activities. 12,334

Change in Net Assets of Governmental Activities	\$ 1,489,386
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**CITY OF WINSLOW, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011**

	Business-Type Activities					Governmental Activities
	Airport	Water	Sanitation	Wastewater	Totals	Internal Service Funds
Assets						
Current Assets						
Cash and Investments	\$ 73,626	\$ 1,220,071	\$ 560,379	\$ 1,480,624	\$ 3,334,700	\$ -
Cash with Paying Agent	-	163,949	-	-	163,949	-
Investments	-	-	953,658	1,907,317	2,860,975	-
Receivables, Net						
Accounts Receivable	41,388	238,748	47,654	133,660	461,450	-
Intergovernmental Receivable	14,453	-	-	-	14,453	-
Interest Receivable	-	-	-	224	224	-
Inventory	-	23,717	-	-	23,717	10,478
Deferred Charges	-	21,836	-	-	21,836	-
Restricted Assets	-	148,841	-	-	148,841	-
Total Current Assets	129,467	1,817,162	1,561,691	3,521,825	7,030,145	10,478
Noncurrent Assets						
Capital Assets						
Non-Depreciable	57,228	603,841	48,015	-	709,084	-
Depreciable (net)	4,397,161	5,662,233	210,491	4,035,857	14,305,742	7,893
Total Noncurrent Assets	4,454,389	6,266,074	258,506	4,035,857	15,014,826	7,893
Total Assets	4,583,856	8,083,236	1,820,197	7,557,682	22,044,971	18,371
Liabilities						
Current Liabilities						
Accounts Payable	18,355	52,755	39,535	39,450	150,095	3,127
Accrued Wages and Benefits	-	17,919	17,162	24,234	59,315	4,760
Interest Payable	-	65,643	-	-	65,643	-
Matured Debt Principal Payable	-	115,000	-	-	115,000	-
Deferred Revenue	5,000	-	-	-	5,000	-
Customer Deposits Payable	-	148,841	-	-	148,841	-
Compensated Absences	-	12,061	3,361	20,791	36,213	2,075
Capital Leases Payable	-	35,370	-	-	35,370	-
Sale Leaseback Payable	-	53,926	-	-	53,926	-
Bonds and Notes Payable	-	130,000	-	-	130,000	-
Landfill Postclosure Payable	-	-	13,000	-	13,000	-
Total Current Liabilities	23,355	631,515	73,058	84,475	812,403	9,962
Noncurrent Liabilities						
Compensated Absences Payable	-	12,386	4,829	7,797	25,012	-
Capital Leases Payable	-	207,655	-	-	207,655	-
Sale Leaseback Payable	-	534,601	-	-	534,601	-
Bonds and Notes Payable	-	1,735,000	-	-	1,735,000	-
Landfill Postclosure Payable	-	-	247,000	-	247,000	-
Total Noncurrent Liabilities	-	2,489,642	251,829	7,797	2,749,268	-
Total Liabilities	23,355	3,121,157	324,887	92,272	3,561,671	9,962
Net Assets						
Invested in Capital Assets	4,454,389	3,569,522	258,506	4,035,857	12,318,274	7,893
Unrestricted	106,112	1,392,557	1,236,804	3,429,553	6,165,026	516
Total Net Assets	\$ 4,560,501	\$ 4,962,079	\$ 1,495,310	\$ 7,465,410	\$ 18,483,300	\$ 8,409

See accompanying Notes to Basic Financial Statements.

CITY OF WINSLOW, ARIZONA
STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	Business-Type Activities					Governmental Activities
	Airport	Water	Sanitation	Wastewater	Totals	Internal Service Funds
Operating Revenue						
Charges for Services	\$ 87,239	\$ 1,720,433	\$ 958,172	\$ 1,326,750	\$ 4,092,594	\$ 311,344
Total Operating Revenue	87,239	1,720,433	958,172	1,326,750	4,092,594	311,344
Operating Expenses						
Cost of Sales and Services	51,469	1,050,828	1,135,330	985,459	3,223,086	295,463
Depreciation	276,363	336,332	24,105	511,767	1,148,567	3,547
Total Operating Expenses	327,832	1,387,160	1,159,435	1,497,226	4,371,653	299,010
Operating income (loss)	(240,593)	333,273	(201,263)	(170,476)	(279,059)	12,334
Nonoperating Revenue (Expense)						
Taxes	-	-	150,000	-	150,000	-
Investment Earnings	-	11,512	25,775	48,759	86,046	-
Interest Expense	-	(159,294)	-	-	(159,294)	-
Total Nonoperating Revenue (Expenses)	-	(147,782)	175,775	48,759	76,752	-
Income Before Capital Contributions and Transfers	(240,593)	185,491	(25,488)	(121,717)	(202,307)	12,334
Capital Contributions	179,546	-	-	-	179,546	-
Transfers In	-	50,572	10,037	5,015	65,624	-
Change in Net Assets	(61,047)	236,063	(15,451)	(116,702)	42,863	12,334
Net Assets						
Beginning of Year	4,621,548	4,726,016	1,510,761	7,582,112	18,440,437	(3,925)
End of Year	\$ 4,560,501	\$ 4,962,079	\$ 1,495,310	\$ 7,465,410	\$ 18,483,300	\$ 8,409

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Business-type Activities					Governmental Activities
	Airport	Water	Sanitation	Wastewater	Totals	Internal Service Funds
Cash flows from operating activities						
Receipts from customers	\$ 80,892	\$ 1,717,698	\$ 1,007,429	\$ 1,302,137	\$ 4,108,156	\$ 311,344
Payments to suppliers	(46,482)	(741,319)	(995,627)	(573,287)	(2,356,715)	(207,993)
Payments to employees	-	(314,225)	(200,959)	(401,426)	(916,610)	(113,625)
Customer deposits	-	(151)	(150)	-	(301)	-
Net cash provided (used) for operating activities	34,410	662,003	(189,307)	327,424	834,530	(10,274)
Cash flows from noncapital financing activities						
Transfers in	-	50,572	10,037	5,015	65,624	-
Tax receipts	-	-	150,000	-	150,000	-
Net cash flows provided by noncapital financing activities	-	50,572	160,037	5,015	215,624	-
Cash flows from capital and financing activities						
Purchases of capital assets	(163,577)	(116,487)	(25,647)	(269,997)	(575,708)	-
Principal paid on capital debt	-	(200,038)	(23,997)	-	(224,035)	-
Interest paid on capital debt	-	(145,268)	-	-	(145,268)	-
Capital grants received	175,314	-	-	-	175,314	-
Net cash flows provided (used) for capital and related financing activities	11,737	(461,793)	(49,644)	(269,997)	(769,697)	-
Cash flows from investing activities						
Investment earnings	-	12,841	30,508	57,507	100,856	-
Purchase of investments	-	-	(520,288)	(1,040,577)	(1,560,865)	-
Net cash flows provided (used) for investing activities	-	12,841	(489,780)	(983,070)	(1,460,009)	-
Net change in cash and cash equivalents	46,147	263,623	(568,694)	(920,628)	(1,179,552)	(10,274)
Cash and cash equivalents, beginning of year	27,479	1,269,238	1,129,073	2,401,252	4,827,042	10,274
Cash and cash equivalents, end of year	\$ 73,626	\$ 1,532,861	\$ 560,379	\$ 1,480,624	\$ 3,647,490	\$ -
Reconciliation of cash and cash equivalents to the statement of net assets						
Cash and cash equivalents	\$ 73,626	\$ 1,220,071	\$ 560,379	\$ 1,480,624	\$ 3,334,700	\$ -
Cash with paying agent	-	163,949	-	-	163,949	-
Restricted assets	-	148,841	-	-	148,841	-
Total cash and cash equivalents	\$ 73,626	\$ 1,532,861	\$ 560,379	\$ 1,480,624	\$ 3,647,490	\$ -

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Business-type Activities					Governmental Activities
	Airport	Water	Sanitation	Wastewater	Totals	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities						
Operating income (loss)	\$ (240,593)	\$ 333,273	\$ (201,263)	\$ (170,476)	\$ (279,059)	\$ 12,334
Depreciation	276,363	336,332	24,105	511,767	1,148,567	3,547
Amortization	-	2,133	-	-	2,133	-
Change in assets/liabilities:					-	
Accounts receivable	(6,347)	(2,735)	49,257	(24,613)	15,562	-
Inventories	-	(1,967)	-	-	(1,967)	(8,382)
Accounts payable	4,987	(20,474)	(57,694)	(1,857)	(75,038)	(12,761)
Accrued wages and benefits	-	9,943	8,369	6,918	25,230	(2,033)
Compensated absences	-	5,649	1,069	5,685	12,403	(2,979)
Customer deposits payable	-	(151)	(150)	-	(301)	-
Landfill postclosure payable	-	-	(13,000)	-	(13,000)	-
Net cash provided (used) for operating activities	<u>\$ 34,410</u>	<u>\$ 662,003</u>	<u>\$ (189,307)</u>	<u>\$ 327,424</u>	<u>\$ 834,530</u>	<u>\$ (10,274)</u>

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2011, the Water Fund amortized deferred charges of \$2,133.

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011**

	Pension Trust	Agency	Totals
Assets			
Cash and Cash Equivalents	\$ 209,424	\$ 28,976	\$ 238,400
Total Assets	<u>209,424</u>	<u>28,976</u>	<u>238,400</u>
Liabilities			
Current Liabilities			
Due to other entities	-	28,976	28,976
Total Liabilities	<u>-</u>	<u>28,976</u>	<u>28,976</u>
Net Assets			
Held In Trust	<u>\$ 209,424</u>	<u>\$ -</u>	<u>\$ 209,424</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF WINSLOW, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2011**

	Pension Trust
Additions	
Contributions	
Employer	\$ 1,189
Employee	1,006
Total contributions	2,195
Investment Earnings	
Interest	38,274
Total Additions	40,469
Deductions	
Benefits	34,635
Administration	2,983
Total Deductions	37,618
Change in Net Assets	2,851
Net Assets, Beginning of Year	206,573
Net Assets, End of Year	\$ 209,424

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the City of Winslow, Arizona (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, 2011, the City implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosure requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

A. 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 (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 of subsidy with the U.S. Department of Housing and Urban Development pursuant to the latter agency's regulations and statutory authorizations; and causes the corporation to construct, own, and operate public housing facilities within the boundaries of the City. The financial liability of the housing agency 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.

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets 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 removed 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 support.

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

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

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

The government-wide 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. However, since debt service resources are provided during the current year for payment of long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Highway User Revenue Fund.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

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:

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 accounts for the City's share of motor fuel tax revenues.

Housing Fund

The Housing Fund 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 accounts for the revenues and expenditures of federally funded community development projects.

Capital Projects Fund

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

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The City reports the following major proprietary funds:

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 types:

Internal Service Funds

The Internal Service Funds account 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.

Agency Fund

The Agency Fund is custodial in nature and does not present results of operations or a measurement focus.

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

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

As a general rule the effect of 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 are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For governmental funds, the City has not formally adopted a spending priority policy and therefore use 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 balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned are available, GASB 54 indicates to use committed, assigned and finally unassigned amounts.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are 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 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. Investments are stated at fair value.

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

2. Receivables

All trade receivables are shown net of an allowance for uncollectibles.

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.

3. Short-term Interfund Receivables/Payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These 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.

4. Inventories and Prepaid Items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first in/first out (FIFO) method.

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

5. Restricted Assets

Customer deposits in the General Fund, Housing Fund, and Water Fund are recorded as restricted assets because their use is limited.

6. Capital Assets

Capital assets, which include property, plant, infrastructure, machinery, equipment and vehicles, are reported in the governmental and business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets (Continued)

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market 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:

Infrastructure	10 Years
Land Improvements	10-20 Years
Buildings and Improvements	10-30 Years
Water Systems and Improvements	10-30 Years
Wastewater Plant and Improvements	10-30 Years
Machinery, Equipment and Vehicles	3-20 Years

7. 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 at the end of the year. 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 minimum of 5 and 20 continuous years of service receive 25% and 50% of their accumulated sick leave benefits, respectively.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

8. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because capital assets make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the City. Unrestricted net assets are the remaining net assets not included in the previous two categories.

10. 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.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

10. Fund Balance Classifications (Continued)

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing 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 comment.
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).

**CITY OF WINSLOW, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011**

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

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

5. Formal budgetary integration is employed as a management control device during the year for all funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures.

The City is subject to the State of Arizona's Spending Limitation Law for 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.

No supplementary budgetary appropriations were necessary during the year.

B. Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following funds:

	<u>Amount of Overexpenditure</u>
General Fund:	
Court	\$ 70
General Administration	19,777
City Clerk	33
City attorney	40
Planning, Zoning and Building	4,580
Nondepartment	85,375
Fire	28,625
Arts Council	1,304

Cash was available to cover the overexpenditures listed above. The City did not adopt a budget for the Housing Fund.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2011 consist of the following:

Deposits:	
Cash on Hand	\$ 1,750
Cash in Bank	3,599,686
Cash on Deposit with Paying Agent	409,754
Investments:	
Money Market	395,738
Mutual Funds	176,467
U.S. Treasury Securities	1,139,368
Federal National Mortgage Association Securities	293,572
Federal Home Mortgage Corporation	493,728
Fannie Mae Mortgage Back Securities Pools	1,749,149
Corporate Debt Securities	1,092,477
Local Government Investment Pool 5	3,869,216
Total Deposits and Investments	13,220,905
Fiduciary Funds	(238,400)
Restricted Assets	(160,154)
Cash on Deposit with Paying Agent	(409,754)
Total Cash and Investments	\$ 12,412,597

Deposits

Custodial Credit Risk – This is the risk that, in the event of a failure by a counterparty, the City will not be able to recover its deposits or collateralized securities that are in the possession of an outside party. The City does not have a formal policy regarding custodial credit risk. However, at June 30, 2011, of the City's \$4,047,387 bank balance, \$1,686,951 was covered by federal depository insurance and the remaining \$2,360,436 was collateralized by securities held by the City's agent in the City's name.

Investments

At June 30, 2011, the City's investments were reported at fair value. The City's investments consisted of money market, mutual funds, U.S Treasury Securities, Federal National Mortgage Association Securities, Federal Home Loan Mortgage Corporation, Fannie Mae Mortgage Back Securities Pool, Corporate Debt Securities, and cash on deposit with the State Treasurer's Investment Pool.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk – The State Board of Deposit provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk.

The City’s investment in the money market and mutual funds are held by the City’s investment services advisor in the City’s name. The investments are insured 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	Maturity			Total
	Less than 1 year	1-3 years	More than 3 years	
Money Market	\$ 395,738	\$ -	\$ -	\$ 395,738
Mutual Funds	176,467	-	-	176,467
U.S. Treasury Securities	326,501	-	812,867	1,139,368
Federal National Mortgage Association Securities	151,150	-	142,422	293,572
Federal Home Loan Mortgage Corporation	-	294,097	199,631	493,728
Fannie Mae Mortgage Back Securities Pools	-	-	1,749,149	1,749,149
Corporate Debt Securities	146,468	357,333	588,676	1,092,477
Local Government Investment Pool 5	3,869,216	-	-	3,869,216
Total	<u>\$ 5,065,540</u>	<u>\$ 651,430</u>	<u>\$ 3,492,745</u>	<u>\$ 9,209,715</u>

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

Credit Risk – The City does not have a formal investment policy regarding credit risk. A credit rating for the mutual funds was not available.

Investment	Amount	Ratings	
		Moody's	S&P's
Corporate Debt Securities	\$ 47,751	AA1	A+
Corporate Debt Securities	51,193	AA1	AA
Corporate Debt Securities	47,524	A2	A+
Corporate Debt Securities	113,113	AA3	AA-
Corporate Debt Securities	48,694	AA2	AA+
Corporate Debt Securities	48,604	AA3	A-
Corporate Debt Securities	49,095	A1	A
Corporate Debt Securities	48,885	AA2	AA-
Corporate Debt Securities	48,942	AA1	AA
Corporate Debt Securities	50,122	A2	A-
Corporate Debt Securities	120,516	A1	A
Corporate Debt Securities	52,563	AA1	AA
Corporate Debt Securities	50,654	A1	A
Corporate Debt Securities	74,300	A1	AA
Corporate Debt Securities	72,999	AA2	AA
Corporate Debt Securities	51,866	A1	A
Corporate Debt Securities	115,656	A1	A+
Federal Home Loan Mortgage Corporation	493,728	Aaa	AAA
Federal National Mortgage Association Securities	293,572	Aaa	AAA
Fannie Mae Mortgage Back Securities Pools	1,749,149	Aaa	AAA
Local Government Investment Pool 5	3,869,216	Not Rated	AAA

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

1. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk – The City does not have a formal investment policy regarding concentration of credit risk. The concentration of investment types is indicated in the table below.

<u>Investment</u>	<u>Total</u>	<u>Percent</u>
Money Market	\$ 395,738	4 %
Mutual Funds	176,467	2
U.S. Treasury Securities	1,139,368	12
Federal National Mortgage Association Securities	293,572	3
Federal Home Loan Mortgage Corporation	493,728	6
Fannie Mae Mortgage Back Securities Pools	1,749,149	19
Corporate Debt Securities	1,092,477	12
Local Government Investment Pool 5	3,869,216	42
Total	<u>\$ 9,209,715</u>	

The investment in corporate debt securities are with several corporations. No investments with any corporation exceed 5% of the total investment balance.

2. Restricted Assets

Restricted assets in the General Fund, Housing Fund and the Water Fund at June 30, 2011 consisted of the following:

	<u>General Fund</u>	<u>Housing Fund</u>	<u>Water Fund</u>	<u>Total</u>
Customer Deposits	<u>\$ 300</u>	<u>\$ 11,013</u>	<u>\$ 148,841</u>	<u>\$ 160,154</u>

3. Receivables

The Navajo County Treasurer is responsible for collecting property taxes for all governmental entities within the County. The County levies the 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 county also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding the assessment levy.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

3. Receivables (Continued)

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 deferred revenues.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
General Fund:		
Delinquent Property Taxes Receivable	\$ 27,154	\$ -
Grants Received, but not Earned	-	7,050
Housing Fund:		
Grants Received, but not Earned	-	41,668
	\$ 27,154	\$ 48,718

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance (Restated)	Increases	Decreases	Transfers	Ending Balance
Governmental Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 1,135,722	\$ -	\$ -	\$ -	\$ 1,135,722
Construction in progress	128,050	1,564,178	-	-	1,692,228
Total Capital Assets, Not Being Depreciated	<u>1,263,772</u>	<u>1,564,178</u>	<u>-</u>	<u>-</u>	<u>2,827,950</u>
Capital Assets, Being Depreciated:					
Infrastructure	10,436,136	842,163	-	-	11,278,299
Buildings and improvements	9,352,799	881,850	-	-	10,234,649
Machinery, equipment and vehicles	5,270,264	37,671	(23,351)	(153,965)	5,130,619
Total Capital Assets, Being Depreciated	<u>25,059,199</u>	<u>1,761,684</u>	<u>(23,351)</u>	<u>(153,965)</u>	<u>26,643,567</u>
Accumulated Depreciation for:					
Infrastructure	(994,486)	(509,334)	-	-	(1,503,820)
Buildings and improvements	(5,062,444)	(305,527)	-	-	(5,367,971)
Machinery, equipment and vehicles	(3,553,289)	(317,931)	23,351	109,495	(3,738,374)
Total Accumulated Depreciation	<u>(9,610,219)</u>	<u>(1,132,792)</u>	<u>23,351</u>	<u>109,495</u>	<u>(10,610,165)</u>
Total Capital Assets, Being Depreciated, Net	<u>15,448,980</u>	<u>628,892</u>	<u>-</u>	<u>(44,470)</u>	<u>16,033,402</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,712,752</u>	<u>\$ 2,193,070</u>	<u>\$ -</u>	<u>\$ (44,470)</u>	<u>\$ 18,861,352</u>

As explained in Note 3.G., the beginning balances of governmental activities capital assets were restated due to calculation errors in depreciation schedules. In addition, the City did not properly capitalize \$128,050 of construction in progress at June 30, 2010.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

4. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-Type Activities:					
Capital Assets, Not Being Depreciated:					
Land	\$ 709,084	\$ -	\$ -	\$ -	\$ 709,084
Total Capital Assets, Not Being Depreciated	<u>709,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>709,084</u>
Capital Assets, Being Depreciated:					
Land improvements	10,704,221	168,751	-	-	10,872,972
Buildings and improvements	421,178	-	(5,673)	-	415,505
Water system and improvements	11,424,647	101,309	-	-	11,525,956
Wastewater plant and improvements	13,029,695	269,997	-	-	13,299,692
Machinery, equipment and vehicles	2,489,837	15,178	(20,029)	153,965	2,638,951
Total Capital Assets, Being Depreciated	<u>38,069,578</u>	<u>555,235</u>	<u>(25,702)</u>	<u>153,965</u>	<u>38,753,076</u>
Accumulated Depreciation for:					
Land improvements	(6,156,304)	(279,323)	-	-	(6,435,627)
Buildings and improvements	(362,415)	(6,630)	5,673	-	(363,372)
Water system and improvements	(6,336,277)	(267,889)	-	-	(6,604,166)
Wastewater plant and improvements	(8,864,131)	(495,607)	-	-	(9,359,738)
Machinery, equipment and vehicles	(1,495,847)	(99,118)	20,029	(109,495)	(1,684,431)
Total Accumulated Depreciation	<u>(23,214,974)</u>	<u>(1,148,567)</u>	<u>25,702</u>	<u>(109,495)</u>	<u>(24,447,334)</u>
Total Capital Assets, Being Depreciated, Net	<u>14,854,604</u>	<u>(593,332)</u>	<u>-</u>	<u>44,470</u>	<u>14,305,742</u>
Business-Type Activities Capital Assets, Net	<u>\$ 15,563,688</u>	<u>\$ (593,332)</u>	<u>\$ -</u>	<u>\$ 44,470</u>	<u>\$ 15,014,826</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 189,621
Public Safety	261,562
Highways and Streets	475,049
Culture and Recreation	165,862
Redevelopment and Housing	40,698
Total Depreciation Expense	<u>\$ 1,132,792</u>
Business-Type Activities:	
Airport	\$ 276,363
Water	336,332
Sanitation	24,105
Wastewater	511,767
Total Depreciation Expense	<u>\$ 1,148,567</u>

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

B. Interfund Receivables, Payables and Transfers

As of June 30, 2011, interfund receivable and payables were as follows:

Due To	Due From		
	Housing Fund	CDBG Fund	Total
General Fund	\$ 94,231	\$ 2,179	\$ 96,410

The above interfund receivables and payables are the result of short-term borrowings to cover deficit cash balances at year end.

Interfund transfers for the year ended June 30, 2011 consisted of the following:

Transfers To	Transfers From			Total
	General Fund	Highway User Revenue Fund	Capital Projects Fund	
General Fund	\$ -	\$ 894,080	\$ 636,641	\$ 1,530,721
Highway User Revenue Fund	-	-	176,824	176,824
Water Fund	-	-	50,572	50,572
Sanitation Fund	10,037	-	-	10,037
Wastewater Fund	-	-	5,015	5,015
Total	\$ 10,037	\$ 894,080	\$ 869,052	\$ 1,773,169

Transfers were made to support operations in the applicable funds and to provide funding for capital projects.

C. Obligations Under Capital 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.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

Capital Leases (Continued)

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Assets:		
Water System and Improvements	\$ -	\$ 617,065
Machinery, Equipment and Vehicles	472,126	-
Less: Accumulated Depreciation	<u>(196,745)</u>	<u>(362,946)</u>
Total	<u>\$ 275,381</u>	<u>\$ 254,119</u>

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, 2011, were as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2012	\$ 31,168	\$ 47,858
2013	23,108	47,858
2014	23,108	47,858
2015	23,108	47,858
2016	23,108	47,858
2017 - 2020	<u>46,217</u>	<u>47,858</u>
Total Minimum Lease Payments	169,817	287,148
Less: Amount Representing Interest	<u>(28,604)</u>	<u>(44,123)</u>
Present Value of Minimum Lease Payments	<u>\$ 141,213</u>	<u>\$ 243,025</u>

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations Under Capital Leases (Continued)

Sale Leaseback Contract

The City has entered into a sale leaseback transaction with Wells Fargo for its lake dredging equipment. Under the terms of the lease contract, the City received cash for the equipment, which was deposited into the Water Fund to provide for operations. The City is required to make annual payments of \$81,881 at an annual interest rate of 4.75% to Wells Fargo. The City maintains control of the dredging equipment and is responsible for maintenance of the equipment. The original cost of the assets is capitalized and included in capital assets in the Water Fund. The original cost of the assets and accumulated depreciation on the assets is as follows:

	Business-Type Activities
Assets:	
Machinery, Equipment and Vehicles	624,430
Less: Accumulated Depreciation	(124,887)
Total	\$ 499,543

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2011, were as follows:

Year Ending June 30,	Business-Type Activities
2012	\$ 81,881
2013	81,881
2014	81,881
2015	81,881
2016	81,881
2017 - 2020	327,522
Total Minimum Lease Payments	736,927
Less: Amount Representing Interest	(148,400)
Present Value of Minimum Lease Payments	\$ 588,527

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations

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.

The City's bonds outstanding are as follows:

Purpose	Interest Rates	Maturity Date	Original Amount	Outstanding Amount
Highway User Revenue Bonds, Series 2005	3.02-3.60%	07/01/09-22	\$ 3,295,000	\$ 2,630,000
Water Revenue Bonds, Series 1998A	5.00-6.625%	07/01/09-23	\$ 2,600,000	\$ 1,680,000
Water Revenue Bonds, Series 1998B	4.85-5.75%	07/01/09-18	400,000	185,000
Total Business-Type Activities			<u>\$ 3,000,000</u>	<u>\$ 1,865,000</u>

Changes in long-term obligations for the year ended June 30, 2011 are as follows:

	July 1, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Governmental Activities					
Bonds Payable:					
Highway User Revenue Bonds	\$ 2,820,000	\$ -	\$ (190,000)	\$ 2,630,000	\$ 195,000
Deferred Amount on Refunding	(130,588)	-	10,882	(119,706)	-
Total Bonds Payable	<u>2,689,412</u>	<u>-</u>	<u>(179,118)</u>	<u>2,510,294</u>	<u>195,000</u>
Other Liabilities:					
Capital Leases	211,314	-	(70,101)	141,213	24,110
Compensated Absences	466,376	298,007	(274,601)	489,782	231,545
Total Other Liabilities	<u>677,690</u>	<u>298,007</u>	<u>(344,702)</u>	<u>630,995</u>	<u>255,655</u>
Governmental Activities Long-Term Liabilities	<u>\$ 3,367,102</u>	<u>\$ 298,007</u>	<u>\$ (523,820)</u>	<u>\$ 3,141,289</u>	<u>\$ 450,655</u>

	July 1, 2010	Increases	Decreases	June 30, 2011	Due Within One Year
Business-type Activities					
Bonds, Notes and Loans Payable					
Water Revenue Bonds	\$ 1,980,000	\$ -	\$ (115,000)	\$ 1,865,000	\$ 130,000
Total Bonds, Notes and Loans Payable	<u>1,980,000</u>	<u>-</u>	<u>(115,000)</u>	<u>1,865,000</u>	<u>130,000</u>
Other Liabilities:					
Capital Leases Payable	276,583	23,997	(57,555)	243,025	35,370
Sale Leaseback Contract Payable	640,007	-	(51,480)	588,527	53,926
Landfill Closure and Postclosure Payable	273,000	-	(13,000)	260,000	13,000
Compensated Absences	48,822	45,994	(33,591)	61,225	36,213
Total Other Liabilities	<u>1,238,412</u>	<u>69,991</u>	<u>(155,626)</u>	<u>1,152,777</u>	<u>138,509</u>
Business-Type Activities Long-Term Liabilities	<u>\$ 3,218,412</u>	<u>\$ 69,991</u>	<u>\$ (270,626)</u>	<u>\$ 3,017,777</u>	<u>\$ 268,509</u>

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-Term Obligations (Continued)

Debt service requirements on long-term debt are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 195,000	\$ 105,435	\$ 130,000	\$ 92,459
2013	200,000	98,854	135,000	86,241
2014	210,000	92,104	140,000	79,723
2015	220,000	81,604	145,000	72,785
2016	230,000	70,604	150,000	65,598
2017 - 2021	1,290,000	214,587	805,000	209,864
2022 - 2023	285,000	11,400	360,000	27,250
	<u>\$ 2,630,000</u>	<u>\$ 674,588</u>	<u>\$ 1,865,000</u>	<u>\$ 633,920</u>

E. Pledged Revenues

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 25% of motor fuel tax revenues. Total principal and interest remaining on the bonds is \$3,304,588 payable through 2022. For the current year, principal and interest paid and total motor fuel tax revenues were \$301,610 and \$1,206,718 respectively.

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 32% of water customer net revenues. Total principal and interest remaining on the bonds is \$2,498,920 payable through 2023. For the current year, principal and interest paid and total water customer net revenues were \$212,899 and \$681,117, respectively.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DETAILED NOTES ON ALL FUNDS (CONTINUED)

F. Fund Balance Classifications of Governmental Funds

The City has classified its fund balances as follows:

	General	Highway User Revenue	Housing	CDBG	Capital Projects	Totals
Nonspendable						
Prepaid Items	\$ -	\$ -	\$ 8,083	\$ -	\$ -	\$ 8,083
Restricted						
Streets and Transportation	-	3,134,011	-	-	-	3,134,011
Public Housing Programs	-	-	154,099	-	-	154,099
Capital Projects	-	-	-	-	1,433,114	1,433,114
Unassigned	2,172,003	-	-	-	-	2,172,003
Total Fund Balance	<u>\$ 2,172,003</u>	<u>\$ 3,134,011</u>	<u>\$ 162,182</u>	<u>\$ -</u>	<u>\$ 1,433,114</u>	<u>\$ 6,901,310</u>

G. Prior Period Adjustment

The City overstated accumulated depreciation in the prior year as a result of calculation errors in depreciation schedules. In addition, the City did not properly capitalize \$128,050 of construction in progress at June 30, 2010. As a result, the following adjustments are necessary to restate governmental activities net assets and reconcile beginning net assets to the prior year audited financial statements:

	<u>Governmental Activities</u>
Net Assets, As Originally Stated	\$ 20,765,072
Depreciation Expense Overstatement	289,777
Construction in Progress Understatement	128,050
Net Assets, As Restated	<u>\$ 21,182,899</u>

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OTHER INFORMATION

A. Landfill Closure and Postclosure Care

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, 2011 to be \$260,000. The actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulation.

B. 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 \$5,000,000 per occurrence on a claims made basis, with an aggregate limit of \$5,000,000. 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 for potential worker related accidents.

C. Construction Commitments

The City had contractual commitments related to various capital projects at June 30, 2011. The City had spent \$1,296,652 on these projects and had remaining commitments with contractors of \$955,650.

Project	Spent-to-Date	Estimated Remaining
Winslow Renaissance III	\$ 1,296,652	\$ 352,715
Dredge Basin 1 & 2	-	602,935

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OTHER INFORMATION (CONTINUED)

D. Contingent Liabilities

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's legal counsel, the City has some exposure to loss; however, the City is vigorously defending these claims and any loss or dollar value of the loss is not determinable.

E. Subsequent Event

Subsequent to June 30, 2011, the City entered into a loan agreement with the Water Infrastructure Finance Authority of Arizona (WIFA). The loan is for a principal amount of \$1,583,750 with an annual interest rate of 2.8% and requires semiannual payments through July 2031. The proceeds of the loan will be used to replace outdated infrastructure in the City's water system.

F. Retirement Plans

Arizona State Retirement System

Plan Description

The City contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health care plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, all of which are administered by the Arizona State Retirement System. The Arizona State Retirement System (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85% (9.6% for retirement and 0.25% for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 9.85% (9.01% for retirement, 0.59% for health insurance premium, and 0.25% for long-term disability) of the members' annual covered payroll.

**CITY OF WINSLOW, ARIZONA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

Arizona State Retirement System (Continued)

Arizona State Retirement System Contributions
 Last Three Fiscal Years

Year Ending June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$ 210,024	\$ 13,753	\$ 5,828
2010	227,074	29,346	11,396
2009	235,644	31,320	14,914

Public Safety Personnel Retirement System (PSPRS)

Plan Description

The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement, death, disability and other post employment benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 1020 East Missouri Avenue, Phoenix, Arizona 85014 or by calling (602) 255-5575.

Funding Policy

Covered employees are required to contribute 7.65% of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 17.37% for police and 5.00% for fire of annual covered payroll.

Annual Pension Cost

During the year ended June 30, 2011, the City of Winslow, Arizona's annual pension cost of \$210,342 for police and \$5,367 for fire was equal to the City of Winslow, Arizona's required and actual contributions.

Annual OPEB Cost

During the year ended June 30, 2011, the City of Winslow, Arizona's annual OPEB cost of \$23,438 for police and \$7,328 for fire was equal to the City of Winslow, Arizona's required and actual contributions.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

Three-Year Trend Information

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2011	\$ 210,342	100.0 %	\$ -
2010	193,834	100.0	-
2009	199,496	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
2011	\$ 23,438	100.0 %	\$ -
2010	19,796	100.0	-
2009	21,077	100.0	-

Fire

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2011	\$ 5,367	100.0 %	\$ -
2010	16,947	100.0	-
2009	10,231	100.0	-

Fiscal Year Ended June 30,	Annual OPEB Cost	Percent Contributed	Net OPEB Obligation
2011	\$ 7,328	100.0 %	\$ -
2010	7,459	100.0	-
2009	7,376	100.0	-

The required contribution was determined as part of the June 30, 2010 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.25% per year compounded annually, (b) projected salary increases of 5.0% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

**CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 OTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

Public Safety Personnel Retirement System (PSPRS) (Continued)

The actuarial value of the City of Winslow, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The City of Winslow, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011, was 25 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Funding Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the pension plan and OPEB was funded as follows:

		Police					
	Entry Age Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll	
Pension	\$ 6,275,664	5,118,489	81.6%	\$ 1,157,175	1,385,265	83.5%	
OPEB	233,200	-	0.0%	233,200	1,385,265	16.8%	
		Fire					
	Entry Age Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll	
Pension	\$ 2,360,683	5,884,606	249.3%	\$ (3,523,923)	264,225	0.0%	
OPEB	66,610	-	0.0%	66,610	264,225	25.2%	

Historical trend information is presented in order for a reader to assess the progress made in accumulating sufficient assets to pay pension benefits as they become payable.

The schedule of funding progress, presented as required supplementary information following the notes to basic financial statements, presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

CITY OF WINSLOW, ARIZONA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 OFTHER INFORMATION (CONTINUED)

F. Retirement Plans (Continued)

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, 2011, the City contributed \$1,189 and the volunteer firefighters contributed \$1,006 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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**CITY OF WINSLOW, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2011**

Police

Retirement						
Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	\$ 4,374,185	\$ 5,450,574	80.3%	\$ 1,076,389	\$ 1,422,847	75.7%
2010	4,680,155	5,852,465	80.0%	1,172,310	1,455,902	80.5%
2011	5,118,489	6,275,664	81.6%	1,157,175	1,385,265	83.5%

Other Post Employment Benefit						
Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	\$ -	\$ 195,253	0.0%	\$ 195,253	\$ 1,422,847	13.7%
2010	-	210,178	0.0%	210,178	1,455,902	14.4%
2011	-	233,200	0.0%	233,200	1,385,265	16.8%

Fire

Retirement						
Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	\$ 5,414,261	\$ 2,042,042	265.1%	\$ (3,372,219)	\$ 359,793	0.0%
2010	5,580,279	2,090,370	267.0%	(3,489,909)	350,845	0.0%
2011	5,884,606	2,360,683	249.3%	(3,523,923)	264,225	0.0%

Other Post Employment Benefit						
Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Unfunded AAL	Annual Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2009	\$ -	\$ 69,547	0.0%	\$ 69,547	\$ 359,793	19.3%
2010	-	72,072	0.0%	72,072	350,845	20.5%
2011	-	66,610	0.0%	66,610	264,225	25.2%

CITY OF WINSLOW, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Taxes				
Sales Taxes	\$ 2,580,000	\$ 2,580,000	\$ 2,764,243	\$ 184,243
Property Taxes	307,000	307,000	313,659	6,659
Franchise Taxes	250,000	250,000	238,611	(11,389)
Intergovernmental Revenue	2,495,652	2,545,652	2,565,450	19,798
Fines and Forfeits	102,000	102,000	58,296	(43,704)
Licenses and Permits	50,850	50,850	61,018	10,168
Charges for Services	249,075	249,075	250,907	1,832
Rents and Royalties	12,500	12,500	11,633	(867)
Contributions and Donations	8,000	8,000	4,129	(3,871)
Investment Earnings	30,000	30,000	21,623	(8,377)
Other	17,700	17,700	57,151	39,451
Total Revenue	<u>6,102,777</u>	<u>6,152,777</u>	<u>6,346,720</u>	<u>193,943</u>
Expenditures				
Current				
General Government				
Mayor and Council	109,576	99,923	79,472	20,451
Court	77,100	77,100	77,170	(70)
General Administration	90,346	187,372	207,149	(19,777)
City Clerk	92,673	92,673	92,706	(33)
City attorney	56,799	56,799	56,839	(40)
Finance	137,995	137,995	120,200	17,795
Human Resources	59,706	59,706	53,291	6,415
Parks and Facilities Maintenance	1,468,405	2,083,914	2,051,123	32,791
Planning, Zoning and Building	140,354	140,354	144,934	(4,580)
Nondepartment	698,400	677,177	762,552	(85,375)
Total General Government	<u>2,931,354</u>	<u>3,613,013</u>	<u>3,645,436</u>	<u>(32,423)</u>
Public Safety				
Police	2,813,136	2,857,336	2,824,349	32,987
Fire	532,712	550,591	579,216	(28,625)
Total Public Safety	<u>3,345,848</u>	<u>3,407,927</u>	<u>3,403,565</u>	<u>4,362</u>
Highways and Streets				
Street Maintenance	739,285	739,285	659,807	79,478
Total Highways and Streets	<u>739,285</u>	<u>739,285</u>	<u>659,807</u>	<u>79,478</u>
Culture and Recreation				
Library	231,843	244,790	226,354	18,436
Recreation	219,723	219,723	199,856	19,867
Arts Council	-	-	1,304	(1,304)
Total Culture and Recreation	<u>451,566</u>	<u>464,513</u>	<u>427,514</u>	<u>36,999</u>
Debt Service				
Principal Retirement	46,104	46,104	46,104	-
Interest on Long-Term Debt	10,009	10,009	10,009	-
Total Expenditures	<u>7,524,166</u>	<u>8,280,851</u>	<u>8,192,435</u>	<u>88,416</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(1,421,389)</u>	<u>(2,128,074)</u>	<u>(1,845,715)</u>	<u>282,359</u>
Other Finance Sources (Uses)				
Transfers In	983,452	1,620,094	1,530,721	(89,373)
Transfers Out	-	-	(10,037)	(10,037)
Total Other Finance Sources (Uses)	<u>983,452</u>	<u>1,620,094</u>	<u>1,520,684</u>	<u>(99,410)</u>
Net Change in Fund Balance	(437,937)	(507,980)	(325,031)	182,949
Fund Balance				
Beginning of Year	1,750,000	1,750,000	2,497,034	747,034
End of Year	<u>\$ 1,312,063</u>	<u>\$ 1,242,020</u>	<u>\$ 2,172,003</u>	<u>\$ 929,983</u>

See accompanying Notes to Required Supplementary Information.

CITY OF WINSLOW, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
HIGHWAY USER REVENUE FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental Revenue	\$ 1,208,635	\$ 1,208,635	\$ 2,050,384	\$ 841,749
Charges for Services	9,500	9,500	9,465	(35)
Investment Earnings	70,000	70,000	48,877	(21,123)
Other	-	-	1,305	1,305
Total Revenue	<u>1,288,135</u>	<u>1,288,135</u>	<u>2,110,031</u>	<u>821,896</u>
Expenditures				
Current				
Highways and Streets	4,114,562	4,114,562	2,376,564	1,737,998
Debt Service				
Principal Retirement	190,000	190,000	190,000	-
Interest on Long-Term Debt	111,610	111,610	111,610	-
Total Expenditures	<u>4,416,172</u>	<u>4,416,172</u>	<u>2,678,174</u>	<u>1,737,998</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(3,128,037)</u>	<u>(3,128,037)</u>	<u>(568,143)</u>	<u>2,559,894</u>
Other Finance Sources (Uses)				
Transfers In	-	176,825	176,824	(1)
Transfers Out	(983,452)	(983,452)	(894,080)	89,372
Proceeds from Sale of Capital Assets	-	-	19,722	19,722
Total Other Finance Sources (Uses)	<u>(983,452)</u>	<u>(806,627)</u>	<u>(697,534)</u>	<u>109,093</u>
Net Change in Fund Balance	(4,111,489)	(3,934,664)	(1,265,677)	2,668,987
Fund Balance				
Beginning of Year	4,350,000	4,350,000	4,399,688	49,688
End of Year	<u>\$ 238,511</u>	<u>\$ 415,336</u>	<u>\$ 3,134,011</u>	<u>\$ 2,718,675</u>

See accompanying Notes to Required Supplementary Information.

CITY OF WINSLOW, ARIZONA
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
CDBG FUND
YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenue				
Intergovernmental Revenue	\$ 50,000	\$ 50,000	\$ 52,424	\$ 2,424
Total Revenue	<u>50,000</u>	<u>50,000</u>	<u>52,424</u>	<u>2,424</u>
Expenditures				
Current				
Highways and Streets	50,000	68,181	52,424	15,757
Total Expenditures	<u>50,000</u>	<u>68,181</u>	<u>52,424</u>	<u>15,757</u>
Net Change in Fund Balance	-	(18,181)	-	18,181
Fund Balance				
Beginning of Year	-	-	-	-
End of Year	<u>\$ -</u>	<u>\$ (18,181)</u>	<u>\$ -</u>	<u>\$ 18,181</u>

See accompanying Notes to Required Supplementary Information.

CITY OF WINSLOW, ARIZONA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011

NOTE 1 BASIS OF ACCOUNTING

The accompanying Schedules of Revenue, Expenditures and Change in Fund Balance Budget and Actual are prepared on a modified accrual basis of accounting. See Note 2a for the process of how the City adopts its budget. The City Council did not adopt a budget for the Housing Fund.

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SINGLE AUDIT ACT REPORTS SECTION

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

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of City of Winslow, Arizona (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Winslow, Arizona's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Winslow, Arizona's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies 2011-1 through 2011-3 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

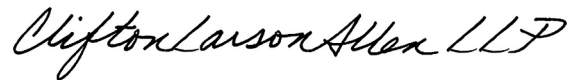
Compliance and Other Matters

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

We also noted certain matters that we reported to management of City of Winslow, Arizona in a separate letter dated February 13, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Mesa, Arizona
February 13, 2012



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Winslow, Arizona's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Winslow, Arizona's major federal programs for the year ended June 30, 2011. The City of Winslow, Arizona's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Winslow, Arizona's management. Our responsibility is to express an opinion on the City of Winslow, Arizona's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Winslow, Arizona's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Winslow, Arizona's compliance with those requirements.

In our opinion, the City of Winslow, Arizona complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-4 and 2011-5.

Internal Control Over Compliance

Management of the City of Winslow, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Winslow, Arizona's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Winslow, Arizona's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-4. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted certain matters that we reported to management of City of Winslow, Arizona in a separate letter dated February 13, 2012.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them

This report is intended solely for the information and use of the members of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Mesa, Arizona
February 13, 2012

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued: *Unqualified*
 Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor’s report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.871	Section 8 Housing Choice Vouchers
20.205	Highway Planning and Construction

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS

Capital Assets

2011-01 Condition/ Context	Depreciation expense was overstated in prior years and Housing Authority construction in process was not capitalized as of June 30, 2010.
Criteria	Management is responsible for establishing and maintaining internal controls, including monitoring the application of accounting standards, and for the fair presentation for the financial statements in accordance with applicable accounting and reporting standards.
Effect	Internal control weakness and material audit adjustments were necessary to restate governmental activities net assets at the beginning of the year.
Cause	The depreciation calculation is a manual process that is not reviewed by personnel independent of the preparation process. The Housing Authority received a new capital grant in fiscal year 2010. The capital expenditures were tracked in expenditure accounts that will not be closed to capital asset accounts until the projects are closed and therefore were inadvertently not included in the capital asset listings.
Recommendation	In order to strengthen internal controls, depreciation schedules should be reviewed for clerical accuracy by an individual independent of its preparation. In addition, a reconciliation of additions to capital expenditures should be prepared to ensure all material additions have been capitalized.
Corrective Action Plan	The City concurs with this recommendation and will reviews its capital asset year end procedures.
Contact Person	Regina Reffner, Director of Finance.

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

General Ledger

2011-02	Condition/ Context	Housing Fund activity recorded in the City’s general ledger was not reconciled to the Housing Authority’s financial statements.
	Criteria	Internal control procedures.
	Effect	Internal control weakness and an adjustment was required to properly state amounts owed to the City from the Housing Authority at June 30, 2011.
	Cause	Proper procedures were not established.
	Recommendation	In order to strengthen internal controls, Housing Fund activity in the City’s general ledger should be reconciled to the Housing Authority’s financial statements on a monthly basis.
	Corrective Action Plan	The City concurs with this recommendation and will develop and institute procedures to reconcile Housing Authority activity.
	Contact Person	Regina Reffner, Director of Finance.

Accounts Payable

2011-03	Condition/ Context	Retainage amounts on construction projects were not accrued at fiscal year end.
	Criteria	Management is responsible for establishing and maintaining internal controls for the proper recording of all the City’s accounting transactions including year-end accruals.
	Effect	A material audit adjustment was required to properly record retainage payable and construction in progress at year-end.
	Cause	Managerial oversight.
	Recommendation	In order to strengthen internal controls, construction projects at or near year end should be review for retainage amounts that require accrual.
	Corrective Action Plan	The City concurs with this recommendation and will develop and institute procedures to ensure year-end activity is properly recorded.
	Contact Person	Regina Reffner, Director of Finance.

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**U.S. Department of Housing and Urban Development
Section 8 Housing Choice Vouchers
CFDA No. 14.871**

2011-04 Condition	Audited financial reports were not submitted to the Department of Housing and Urban Development through the Real Estate Assessment Center website in a timely manner.
Context	The 2007-08, 2008-09, and 2009-10 fiscal years.
Criteria	OMB Circular A-133 – Reporting.
Effect	Noncompliance with OMB Circular A-133.
Cause	Change in personnel at the Housing Director position during 2008-09 and 2009-10.
Recommendation	In order to comply with OMB Circular A-133, the audited financial statements should be submitted to HUD in a timely manner each year.
Corrective Action Plan	The City concurs with this recommendation and has filed the prior year's financial information. The 2007-08, 2008-09, and 2009-10 audited financial reports have been submitted as of the report date.
Contact Person	Regina Reffner, Director of Finance.

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

**U.S. Department of Transportation
Highway Planning and Construction
CFDA No. 20.205
Passed Through the Arizona Department of Transportation**

2011-05	Condition/ Context	Cash management reports were not filed within the timeframe outlined in the grant agreement.
	Criteria	OMB Circular A-133 – Cash Management and internal controls over compliance.
	Effect	Noncompliance with OMB Circular A-133 and internal control weakness.
	Cause	The City does not have procedures in place to ensure that cash management reports are submitted on a timely basis.
	Recommendation	In order to comply with OMB Circular A-133 and strengthen internal controls, a reporting deadline monitoring system should be considered in order to minimize the risk of missed deadlines and potential loss of funds.
	Corrective Action Plan	The City concurs with this recommendation and will develop procedures to ensure that cash management reports are submitted in accordance with deadlines outlined in the grant agreement.
	Contact Person	Regina Reffner, Director of Finance.

**CITY OF WINSLOW, ARIZONA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**U.S. Department of Housing and Urban Development
Section 8 Housing Choice Vouchers
CFDA No. 14.871**

10-03 Condition Tenant files were not always reviewed by the housing director.

Status No similar instances noted in the current year.

10-04 Condition Audited financial reports were not been submitted to the Department of Housing and Urban Development through the Real Estate Assessment Center website in a timely manner.

Status Similar condition noted as item 2011-04.

10-05 Condition Documentation of reasonable rent review was not maintained.

Status No similar instances noted in the current year.

**U.S. Department of Transportation
Highway Planning and Construction
CFDA No. 20.205**

10-06 Condition/
Context Documentary evidence was not maintained for vendor Excluded Parties List System (EPLS) review.

Status No similar instances noted in the current year.

10-07 Condition/
Context Documentary evidence of review of certified payrolls was not maintained.

Status No similar instances noted in the current year.

CITY OF WINSLOW, ARIZONA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Grantor Agency	Federal CFDA Number	Pass-through Grantor's Number	Expenditures
U.S. Department of Housing and Urban Development			
Public and Indian Housing	14.850	N/A	\$ 177,187
Section 8 Housing Choice Vouchers	14.871	N/A	716,277
Public Housing Capital Fund Program Cluster			
Public Housing Capital Fund	14.872	N/A	\$ 84,798
Public Housing Capital Fund - ARRA	14.884	N/A	8,159
Public Housing Capital Fund Cluster			<u>92,957</u>
Passed through Arizona Department of Housing			
Community Development Block Grant	14.218	143-09	1,140
Community Development Block Grant	14.218	144-09	29,106
Community Development Block Grant	14.218	145-09	1,650
Community Development Block Grant	14.218	166-09	20,528
Total Community Development Block Grant			<u>52,424</u>
Total U.S. Department of Housing and Urban Development			<u>1,038,845</u>
U.S. Department of Justice			
ARRA Public Safety Partnership and Community Policing	16.710	N/A	63,812
U.S. Department of Transportation			
Airport Improvement Program	20.106	N/A	52,230
Airport Improvement Program	20.106	N/A	4,503
Airport Improvement Program	20.106	N/A	24,470
Airport Improvement Program	20.106	N/A	94,367
Total Airport Improvement Program			<u>175,570</u>
Passed through Arizona Department of Transportation			
Highway Planning and Construction	20.205	P0012008004542	<u>843,666</u>
Total U.S. Department of Transportation			<u>1,019,236</u>
U.S. Institute of Museum and Library Services			
Passed through Arizona State Library Archives and Public Records			
Grants to States	45.310	2010-30026-09	6,545
U.S. Department of Energy			
Passed through Arizona Department of Commerce			
ARRA Energy Efficiency and Conservation Block Grant	81.128	R016-10-07	2,121
Passed through Arizona Office of Energy			
ARRA Energy Efficiency and Conservation Block Grant	81.128	R016-10-07	21,820
Total ARRA Energy Efficiency and Conservation Block Grant			<u>23,941</u>
U.S. Department of Education			
Passed through Arizona Office of Economic Recovery			
ARRA Public Safety Stabilization Program	84.397	OER-11-IGA-GS-182	<u>31,843</u>
Total Federal Awards			<u>\$ 2,184,222</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**CITY OF WINSLOW, ARIZONA
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011**

NOTE 1 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Winslow, Arizona (City). The City's reporting entity is defined in Note 1 to the City's basic financial statements for the year ended June 30, 2011. The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 of the City's basic financial statements for the year ended June 30, 2011.