

City of Cottonwood

Arizona

Comprehensive Annual Financial Report FY 2020



Inspiring a Vibrant Community

City of Cottonwood, Arizona

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the fiscal year ended June 30, 2020

Prepared by the Finance Department

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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December 31, 2020

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Cottonwood:

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Cottonwood (City) for the fiscal year ended June 30, 2020.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Cottonwood's financial statements in conformity with accounting principles generally accepted in the United States of America. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free of material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by The Pun Group LLP, a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ending June 30, 2020, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2020, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader, federally mandated Single Audit as required by the provisions of the Single Audit Act Amendments of 1996, U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Uniform Guidance designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited entity's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Reporting Package filed with the Federal Audit Clearinghouse.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Cottonwood's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The community of Cottonwood was settled in 1879 and named after the tall stands of cottonwood trees. The first settlers were ranchers utilizing the fertile grasslands along the Verde River to feed their herds. Cottonwood developed as a farming and ranching community to support the nearby copper mining industry in Clarkdale and Jerome. The city incorporated in 1960 as the Town of Cottonwood. In 1987, the voters approved a name change from Town to City.

The City of Cottonwood, Arizona is situated in central Arizona bordering the Verde River to its north. The total geographic area is 15.75 square miles. Cottonwood is near the geographic center of Arizona adjacent to Interstate 17 on State Highways 89A and 260. The 2010 Census places the population at 11,265. Cottonwood is the retail and services center for the Verde Valley area. The main industries are tourism and wine, government services, medical and health services, retail and education.

The City of Cottonwood, Arizona has a Council-Manager form of government consisting of the Mayor and six Council Members. The Mayor is elected directly by the voters and serves a four-year term. The voters elect six City Council representatives for staggered four-year terms. The City Council is vested with policy and legislative authority and is responsible for passing ordinances, adopting the budget, appointing committees, commissions, and board members, and appointing the positions of City Manager, City Attorney, City Clerk and Magistrate Judge. The City Council appoints a City Manager who is responsible for carrying out the policies and ordinances of the City Council, as well as overseeing the general operations of the various departments within the City.

The City of Cottonwood, Arizona provides a full range of municipal services, including law enforcement and fire suppression. Other services include road maintenance, park and recreational services, regulation of building and zoning codes, animal control, and a public library. Cottonwood offers community facilities including a swimming pool, civic center, recreation center, sports fields and community parks. The City also operates and maintains a water/wastewater utility, a cemetery, and a municipal airport.

FACTORS AFFECTING FINANCIAL CONDITION

Internal Controls.

Management, in conjunction with those charged with governance, of the City of Cottonwood, Arizona are responsible for establishing and maintaining a system of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurances regarding;

- 1) Safeguarding of assets against loss from unauthorized use or disposition, and
- 2) Reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurances recognizes:

- 1) The cost of a control should not exceed the benefits likely to be derived, and
- 2) The valuation of costs and benefits requires estimates and judgments by management.

The system of internal control is subject to periodic evaluation by management and is also considered by the independent auditors in connection with the annual audit of the City's financial statements. All internal control evaluations occur within the above framework. The City's internal accounting controls are designed and operating to adequately safeguard assets and provide reasonable assurances of proper recording of financial transactions.

Budgetary Controls.

The budget process is a cyclical process. A "beginning point" is the preparation of the base budget by each department head. Each budget is based on expenditures to date and the previous years' experience. The departments' base budgets, along with any requests for new positions, programs or services are then presented to the City Manager. City management then meets with each department head to review their base budget and requests for new services and/or programs. Once management has reviewed the departments' requests, a tentative budget is presented to the City Council by the City Manager in June.

In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget to the City Council for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The City is subject to the State of Arizona's Annual Expenditure Limitation Law for Towns and Cities. This law does not permit the city to spend more than budgeted revenues plus the carry-over unrestricted cash balance from the prior fiscal year. The limitation is applied to the total of the combined funds. All appropriations lapse at year-end requiring actual fund balances to be re-budgeted each fiscal year.

The City operates under the voter-approved Alternative Expenditure Limitation as do all cities and towns in the State of Arizona. That makes a municipality subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity.

In May 21, 2013, the electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a permanent base adjustment to the State imposed expenditure limit. This option allows Cottonwood to adjust the State imposed expenditure base from the original 1979-80 base of \$1,105,601 to \$7,000,000.

To ensure compliance with the state imposed expenditure limitation, a uniform expenditure report must be filed with the state each year. This report reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the state's uniform expenditure reporting system (ARS Section 41-1279.07). Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.

The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers of appropriations within the department. Transfers of appropriations between departments, however, require City Council approval. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. Budget-to-actual comparisons for the General Fund and Major Special Revenue Funds, if applicable, are presented in the Required Supplementary Information section following the Notes to the Basic Financial Statements and all other funds are presented in Other Information – Fund Schedules.

Local Economy.

The City of Cottonwood, Arizona continues to face many growth issues. Its citizens, governing body, and municipal government are committed to finding solutions for each of the issues. This strong commitment to the community has made 2020 a successful year, and will provide for future success. The City of Cottonwood continues to research programs that have been postponed in past years due to previous slow economies. Additionally, the City hopes to correct any deficiencies that may have occurred and is working on developing additional reserves to allow the City to fund much needed capital and maintenance projects that may have been postponed.

Although the current economic outlook is good all vacancies will be evaluated to access the need for replacement, elimination or modification to the job description as the City works towards right sizing the organization. The City will be closely monitoring its revenue sources and make adjustments accordingly.

Economic Outlook.

Retail Sales – Not having a property tax, the City of Cottonwood, Arizona relies heavily on city transaction privilege tax (TPT), sometimes called a sales tax. Overall, city TPT revenues provide over 62% of the General Fund revenues. The city's TPT rate is currently at 3.5%, and the City also has a 3.5% Bed Tax (occupancy), a portion of which is transferred to the local Chamber of Commerce to promote economic development and tourism.

The TPT on construction projects has two parts: a 3.5% construction TPT is collected for the General Fund and an additional 1% construction TPT is collected specifically for street maintenance and goes into the Highway User Revenue Fund (HURF).

State Shared Revenues - The City of Cottonwood, Arizona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. These revenue sources have improved recently and have increased by approximately 9.5% over the fiscal year 2019.

Highway User Revenue Fund (HURF) - The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and construction. In past years, the state legislature has reduced the formula distribution of state-shared revenues to cities. The state shared revenue formulas generally allocate revenues based on official census data. (Last census: Year 2010). During FY 2018, the state enacted a special fee to help fund the Department of Public Safety and therefore had additional funds to allocate to City's and Towns for FY 2020. The City received approximately an additional \$192,000.

Long-Term Financial Planning.

The City's Budget Policy has helped weather the slow economic recovery. This policy continues to require the City to internally restrict an amount equal to 16.67% of the previous year's operating revenues as part of its General Fund balance. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 10% of the .5% increase in TPT tax revenues from FY 2019 is being set aside for capital projects. FY 2020 is the second year of this reserve. There is also a Capital Projects reserve fund of over \$1,000,000 that Council capped at \$1,000,000 several years ago. Any excess revenues from this reserve are used for everyday maintenance and operational costs. In Fiscal Year 2019, Council directed staff to designate a portion of a .5% sales tax increase to General Fund reserves. During FY 2020, \$948,331 was transferred to General Fund reserves from the increase and \$734,532 was transferred to the HURF Fund.

Regular reporting to the City Manager, General Manager & Department Heads, allows for prompt shifting of priorities in order to counter downward economic pressure. This year the General Fund alone was able to maintain its costs and still accomplish its overall goals.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year.

The following depicts the continued commitment of the City of Cottonwood to make the community a better place to live. Fiscal Year 2020 goals obtained are summarized within this list of accomplishments:

Facilitate Economic Growth

- Implemented Community Grant for outside agencies in the amount of \$100,000.
- Updated and renewed tourism policy and the agreement with the Cottonwood Chamber of Commerce as well, meeting Council's desire for a more progressive approach to marketing Cottonwood in the future.
- Expanded business call-backs to companies and hotel groups in-state and out-of-state identifying the theme of "Cottonwood is open for business."
- Continued economic development efforts, which have contributed to the recognition of Cottonwood and the Verde Valley as an emerging American wine region in national articles and polls.
- Worked with the Hang Gliding Association to identify a new landing spot outside of the secured airport operations area.

- In conjunction with Parks & Recreation held “We Are Cottonwood” Fest in August to celebrate City Hall Selfie Day and encourage further citizen engagement.
- Helped negotiate in-escrow sale of vacant property on 6th Street to a development group that intends to construct a new, 85-bed Springhill Suites hotel on the property, which is estimated to generate between \$200,000 and \$250,000 in additional direct tax revenues to the City.
- Implemented extended service hours and Sunday service for the Verde LYNX public transportation service.
- Successfully started extended hours for the Cottonwood Connect so passengers that ride the late hour Verde LYNX transportation service can get home.
- Obtained a Section 5339 Buses and Bus Facilities Grant Program for \$550,000 with only \$82,500 matching.

Strengthening the Budget Process

- Implemented City of Cottonwood Strategic Plan.
- Researched and developed a plan to reward employees for cost savings and sustainability ideas to promote fiscal responsibility and economic growth.
- Produced an informative monthly budget update document to be presented to Council.
- Proposed and implemented a conservative budget.
- Secured Arizona Homeland Security grant money to enhance the City’s cybersecurity.
- Decreased the net program costs of Walkin’ on Main by 46% through decreased operating expenses and increased revenues.
- Decreased staffing costs while increasing hours of operations, including holiday hours and reducing closed days of the facility.

Protecting Water Resources

- Completed the design phase of the new reclaimed waterline from Riverfront Park to the cemetery.
- Worked with The Nature Conservancy to seek external funding for the construction of the new reclaimed waterline from Riverfront Park to the cemetery.
- Completed Highway 89A waterline extension and installation of Lower 5 booster generator to satisfy mitigation requirements of Arizona Department of Environmental Quality (AZDEQ) and Arizona Department of Homeland Security (AZDHS).
- Obtained the Underground Storage Permit (USF) from Arizona Department of Water Resources and began recharging reclaimed water.
- Completed the installation of the Parshall flume flow-metering channel at the Mingus Wastewater Treatment Plant to comply with ADEQ permit requirements.
- Initiated rehabilitation of Lift Station 4 of the wastewater system.

Promote Quality of Life

- Continued operation of the Cottonwood Community Garden.
- The Safety Committee raised funds, for the purchasing and installation of two public automated external defibrillators (AEDs) on Main Street in the Old Town area.
- Created and implemented the Public Library’s Strategic Plan.

- Maximized hours of operation by increasing the library's opening hours in times of need and reducing hours during low-use times. Overall, an increase of three (3) operating hours a week with no increase in staffing costs.
- Received \$4,000 of Library Services and Technology Act funding to improve Spanish language materials.
- Added to the security of the City by installing video surveillance systems at Garrison Park/ Military Service Park and the Recreation Center.
- Installed a "School Zone" area along Mingus Avenue, in the vicinity of the Cottonwood Community School.
- Hosted and funded the Fall Carnival through community sponsorships with no cost to the City. Held the City's first "New Year's Eve Celebration."
- Hosted the Arizona State Regional Little League Tournament and partnered with the National Softball Association to host the 30-team Cottonwood Classic Fast pitch Tournament for girls 18 and under.
- Implemented a new recreation management software system that will reduce the City's transaction charges and allow for a more streamlined online registration and integration into an online platform.
- Helped establish and participate in new Safe Housing Task Force to assist individuals and families who are displaced because of dilapidated/unsafe housing conditions.
- Prioritized code enforcement to be more proactive and developed a task force to address dilapidated and unsafe rental housing structures that are neglected by landlords.
- Reviewed city ordinances specific to health, safety, public peace and overall quality of life in Cottonwood as it pertains to animal issues.
- Community Development and Police Department worked together to improve the overall beauty of Cottonwood through education, resources and enforcement of ordinance issues.
- Created formalized training program requirements to meet GI Bill On the Job Training program.
- Hosted "Vacation Fire School" for area youth to promote fire safety and let them explore possible fire service careers.
- Partnered with Yavapai County Sheriff's Office (YCSO) and other communications centers to conduct and participate in regional training and in-service opportunities.
- Snake Safety Awareness Training was provided to City employees, focusing on employees who work outside.

Developing and Improving Infrastructure

- Developed a plan to conduct internal biennial audits of fixed assets and produced a policy document for auditing the City's Assets.
- Received a \$462,000 grant from Yavapai County Flood Control District to complete a detailed floodplain study of the Railroad Wash and the Silver Spring Gulch and to complete the city-wide Drainage Master Plan Update.
- Completed the structural rehabilitation of the double tees and facilitated the installation of a new roof membrane at Mingus Waste Water Treatment Plant.
- Completed the design and construction of the Camino Real Sidewalk Infill project.
- Completed the sidewalk infrastructure map and programmed sidewalk infill projects along Camino Real, North Main Street, Cactus Street and Willard Street for construction.
- Completed the pavement condition index maps and used them to identify roads to be treated under the FY 2020 Pavement Preservation projects.

- Completed the sidewalk infrastructure map and programmed sidewalk infill projects along Camino Real, North Main Street, Cactus Street and Willard Street for construction.
- Conducted routine street sweeping activities along the highway, arterial and collector streets and on City parking lots.
- Coordinated with APS to implement new street banner locations along Main Street.
- Completed the Sidewalk Infrastructure Map and programmed sidewalk infill projects along Camino Real, North Main Street, Cactus Street and Willard Street for construction.
- Completed the implementation of the Main Street road ditch from Willard Street to Mingus Avenue (Phase 1).
- Completed audit of Water and Wastewater Utilities.
- Completed installation of radio read water meters in Verde Village 7 resulting in reduced costs and improved efficiency.

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2019. This was the 29th consecutive year that the City has received this prestigious award. In order to be awarded this certificate, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

This certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the program's requirements and we are submitting it to GFOA to determine its eligibility for the fiscal year ended 2020 certificate.

Acknowledgments. The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of the staff and Finance Department. We also wish to thank all the department heads and members of the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Respectfully submitted,



Ron Corbin
City Manager



Kirsten L. Lennon
Financial Services Director





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

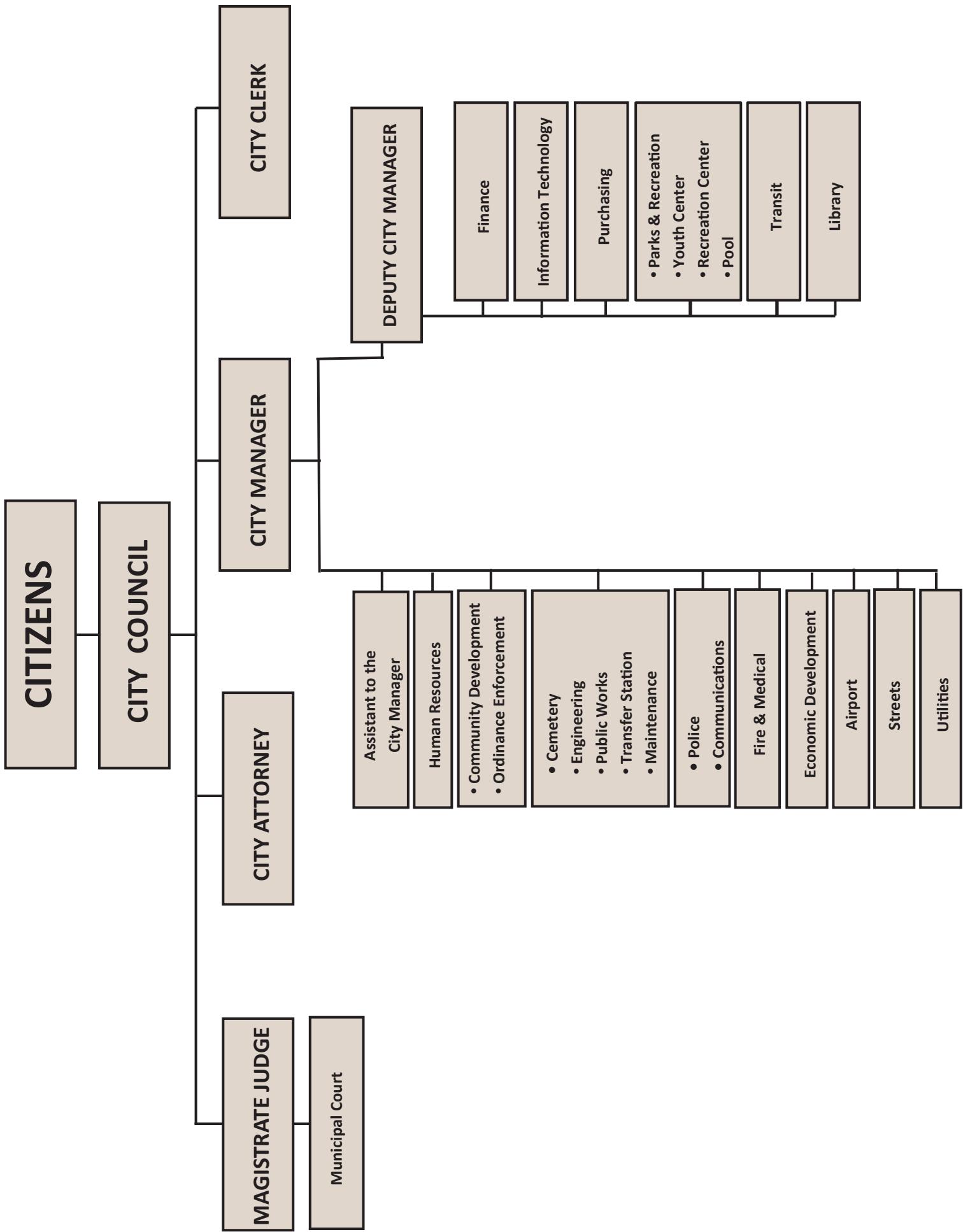
**City of Cottonwood
Arizona**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Monell

Executive Director/CEO



City of Cottonwood

Comprehensive Annual Financial Report

Principal Officials as of June 30, 2020



Mayor
Tim Elinski



Vice Mayor
Michael Matthews



Council Member
Tosca Henry



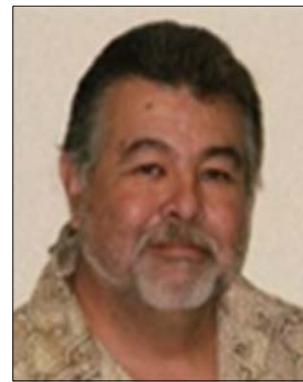
Council Member
Doug Hulse



Council Member
Jackie Nairn



Council Member
Debbie Wilden



Council Member
Ruben Jauregui

City Staff as of June 30, 2020

Ron Corbin, City Manager

**Jesus R. Rodriguez,
Deputy City Manager**

**Kirsten Lennon,
Financial Services Director**

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the City Council of the City of Cottonwood
Cottonwood, Arizona

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously 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, as of June 30, 2020, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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www.pungroup.com

To the Honorable Mayor and Members
of the City Council of the City of Cottonwood
Cottonwood, Arizona
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Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, supplementary schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "The Pugh Group, LLP". The signature is fluid and cursive, with "The Pugh Group" on the first line and "LLP" on the second line.

Phoenix, Arizona
December 31, 2020

City of Cottonwood, Arizona

**Management's Discussion and Analysis
(Unaudited)
(Required Supplementary Information)**
For the fiscal year ended June 30, 2020

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Management's Discussion and Analysis (Unaudited)
(Required Supplementary Information)
For the Year Ended June 30, 2020

Management of the City of Cottonwood (the “City”) provides the Management Discussion and Analysis of the City’s Comprehensive Annual Financial Report (CAFR) for readers of the City’s financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year (FY) ended June 30, 2020. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the City’s financial statements, which follow. Keep in mind that the Financial Highlights, immediately following, are strictly snapshots of information. Net position, changes in net position and fund disclosures are discussed in more detail later in the report.

Financial Highlights – Primary Government

♦ *Government-Wide Highlights*

Net Position – Assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at fiscal year ending June 30, 2020 by \$66.6 million, this compared to \$60.0 million at fiscal year end June 30, 2019. This is an overall increase of \$6.6 million or an increase of 11% of prior year’s net position. Net position for governmental activities exceeded liabilities by \$19.6 million and this compares to \$16.5 million at June 30, 2019, an increase of 19%. The amount of increase in net position was \$3.1 million. Assets and deferred outflows of resources for business-type activities exceeded liabilities and deferred inflows of resources by \$47.1 million compared to \$43.5 million at June 30, 2019, an increase of 8%.

Changes in Net Position – The City’s net position increased \$6.6 million in FY 2019-2020; this compared to \$5.0 million increase in FY 2018-2019. Net position of governmental activities increased \$6.6 million compared to an increase of \$2.0 million in 2018-2019. Net position of business-type activities increased by \$3.5 million compared to a \$3.0 million increase in FY 2018-2019.

♦ *Fund Highlights*

Governmental Funds – At the close of FY 2019-2020 the City’s total governmental funds reported a fund balance of \$12.2 million, a \$4.4 million increase from the FY 2018-2019 balance of \$7.8 million, an increase of 55.5%. The increase in fund balance was partially due to an increase of the sales tax rate by .5% approved by Council in November of FY 2019, this increase allowed the City to reserve a larger portion of revenues and to decrease transfers to non-governmental funds.

General Fund – The fund balance of the general fund on June 30, 2020 was \$8.0 million. The fund balance increased \$3.2 million due to the City Council raising the City’s sales tax rate in FY 2019 and designating that a large portion of the revenues received be reserved along with a conservative approach in spending taken by City Staff due to the uncertainty of COVID-19.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

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

- *Statement of Net Position* - The Statement of Net Position presents summarized information of all the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. This financial statement combines and consolidates governmental funds current financial resources with capital assets and long-term obligations.
- *Statement of Activities and Changes in Net Position* - The Statement of Activities and Changes in Net Position presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the 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 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 include general government, public safety, highway and streets, transportation, and culture and leisure services. Business type activities include operations of the water and wastewater plant.

Fund Financial Statements

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, 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 can be divided into three categories: Governmental funds, proprietary funds, and fiduciary funds.

The fund financial statements provide detail information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are major funds, was established by GASB Statement No. 34 (GASB 34) and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, while all Non-Major Funds are summarized and presented in a single column.

- *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, on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. A reconciliation of both the governmental funds balance sheet and the governmental funds statement of revenues, expenses and changes in fund balance with the governmental-wide financial statements can be found on pages 30-33.

- Proprietary Funds - The City maintains two types of proprietary funds: enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water and wastewater. Internal service funds are used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units on a cost reimbursement basis. The goal of the internal service funds is to measure the full cost of providing goods or services for the purpose of fully recovering that cost through fees or charges. Because internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary funds financial statements use the accrual basis of accounting.

The basic proprietary funds financial statements can be found on pages 38-41.

- Fiduciary Funds - Fiduciary (Agency) funds are used to account for resources held for the benefit of parties outside the government. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 53-96.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The required supplementary information includes budgetary comparison schedules for the major funds, and information regarding the obligation to provide pension benefits to employees. This information can be found on pages 99-122.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

City of Cottonwood Net Position						
	Governmental		Business-Type		Total	
	Activities	2020	Activities	2019	2020	2019
Current & Other Assets	\$ 15,689,961	\$ 10,808,432	\$ 27,356,370	\$ 23,744,314	\$ 43,046,331	\$ 34,552,746
Capital Assets	46,226,384	48,620,332	41,645,114	42,760,717	87,871,498	91,381,049
Total Assets	61,916,345	59,428,764	69,001,484	66,505,031	130,917,829	125,933,795
Deferred Outflows	5,231,161	5,334,525	4,233,969	4,439,180	9,465,130	9,773,705
Current Liabilities	4,618,136	4,183,108	2,371,146	2,305,428	6,989,282	6,488,536
Long-term Liabilities	41,471,540	42,337,580	23,615,691	24,842,525	65,087,231	67,180,105
Total Liabilities	46,089,676	46,520,688	25,986,837	27,147,953	72,076,513	73,668,641
Deferred Inflows	1,462,910	1,113,504	193,831	255,952	1,656,741	1,369,456
Net Investment in						
Capital Assets	27,118,419	27,277,629	27,364,275	27,089,493	54,482,694	54,367,122
Restricted	4,127,464	3,010,461	7,674,983	7,830,805	11,802,447	10,841,266
Unrestricted	(11,650,963)	(13,832,151)	12,015,527	8,620,008	364,564	(5,212,143)
Total Net Position	\$ 19,594,920	\$ 16,455,939	\$ 47,054,785	\$ 43,540,306	\$ 66,649,705	\$ 59,996,245

Net Position

The chart above reflects the City's combined net position (governmental and business-type activities) which totals \$66.6 million at the close of fiscal year ending June 30, 2020.

Of the City's total net position, 81.7% reflects its investment in capital assets (e.g., land, streets, sewers, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City 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.

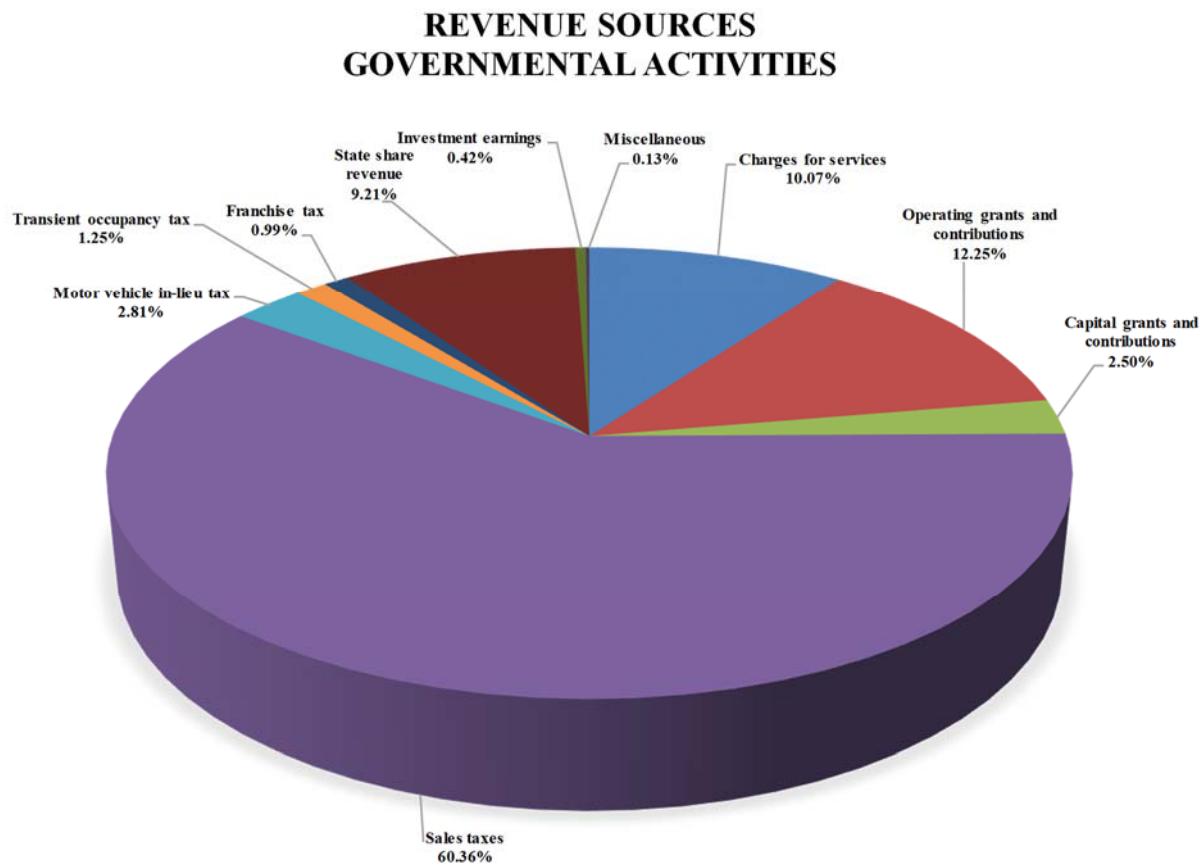
The remaining City net position represents resources that are subject to external restrictions (e.g., capital projects, debt services and highway and streets) and resources that are unrestricted to meet the City's ongoing obligations to citizens and creditors.

The City's net position was increased by \$6.6 million during the fiscal year, a 11% increase. This was due to the sales tax increase that was enacted by the Cottonwood City Council in November 2018 that increased revenues and decreased the need to transfer between funds. This increase along with fiscally responsible spending allowed the City to increase its net position

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

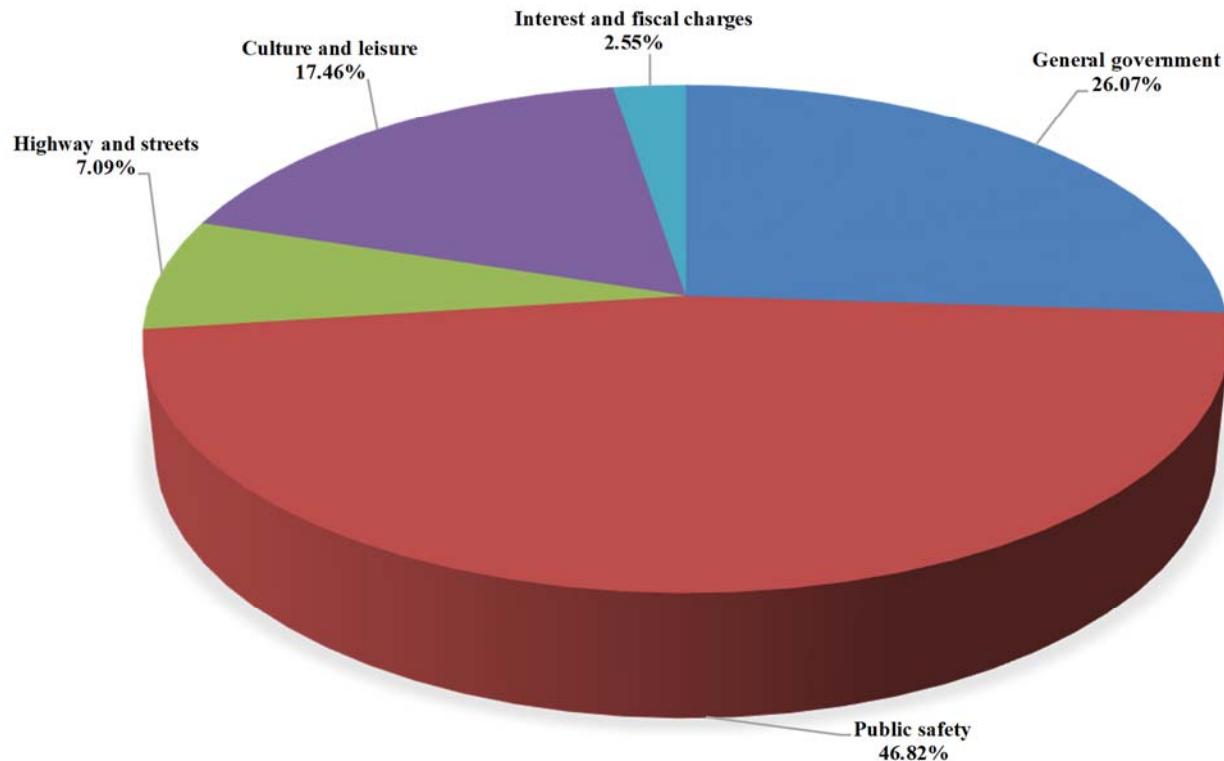
Governmental Activities

Governmental activities increased the City's net position by \$3.1 million. The increase in the net position for governmental activities is attributed to decreased expenses derived from the general government activities. The charts that follow show the program revenues, general revenues and expenses by function for all Governmental activities.



City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

EXPENSES BY FUNCTION
GOVERNMENTAL ACTIVITIES



City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

Statement of Activities
For the Year Ended June 30, 2020

	Governmental Activities		Business Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 3,102,697	\$ 3,599,327	\$ 11,340,094	\$ 10,821,119	\$ 14,442,791	\$ 14,420,446
Operating grants and contributions	3,772,457	3,358,972	-	-	3,772,457	3,358,972
Capital grants and contributions	770,600	601,461	-	-	770,600	601,461
Total program revenues	7,645,754	7,559,760	11,340,094	10,821,119	18,985,848	18,380,879
General revenues:						
Sales taxes	18,588,547	16,453,665	-	-	18,588,547	16,453,665
Motor vehicle in-lieu tax	866,283	848,579	-	-	866,283	848,579
Transient occupancy tax	386,302	288,333	-	-	386,302	288,333
Franchise tax	303,659	404,620	-	-	303,659	404,620
Total taxes	20,144,791	17,995,197	-	-	20,144,791	17,995,197
State share revenue	2,838,005	2,666,814	-	-	2,838,005	2,666,814
Investment earnings	129,036	135,426	353,649	364,451	482,685	499,877
Miscellaneous	41,029	48,496	-	78,225	41,029	126,721
Gain on sale of assets	-	74,936	-	-	-	74,936
Total general revenues and transfers	23,152,861	20,920,869	353,649	442,676	23,506,510	21,363,545
Total revenues	30,798,615	28,480,629	11,693,743	11,263,795	42,492,358	39,744,424
Expenses:						
General government	6,651,834	5,947,814	-	-	6,651,834	5,947,814
Public safety	11,945,539	12,099,647	-	-	11,945,539	12,099,647
Highway and streets	1,809,652	1,419,997	-	-	1,809,652	1,419,997
Transportation	2,147,294	2,300,410	-	-	2,147,294	2,300,410
Culture and leisure	4,455,091	4,107,450	-	-	4,455,091	4,107,450
Interest and fiscal charges	650,224	691,681	-	-	650,224	691,681
Water	-	-	5,348,996	5,281,449	5,348,996	5,281,449
Wastewater	-	-	2,830,268	2,896,175	2,830,268	2,896,175
Total expenses	27,659,634	26,566,999	8,179,264	8,177,624	35,838,898	34,744,623
Change in net position	3,138,981	1,913,630	3,514,479	3,086,171	6,653,460	4,999,801
Net position, beginning of year	16,455,939	14,542,309	43,540,306	40,454,135	59,996,245	54,996,444
Net position, end of year	\$ 19,594,920	\$ 16,455,939	\$ 47,054,785	\$ 43,540,306	\$ 66,649,705	\$ 59,996,245

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

Governmental Activities

- ♦ Charges for services are primarily for recreation, planning, transportation, water and waste water fees.
- ♦ Operating and capital grants and contributions include grants from Federal and State grants to fund the Transit Program operations and to fund various projects including the Airport Master Plan and the Parks Master Plan.
- ♦ Sales tax includes mainly hotel, retail, and franchise fees and other special assessments.
- ♦ General government expenses include those expenses necessary for the operation of the general operation of the City. These include but are not limited to:
 - City Council
 - City Manager
 - City Clerk
 - Finance
 - Human Resources
- ♦ Public Works
- ♦ Public Safety expenses include both Police and Fire Protection Services, the Municipal Court and Legal Services
- ♦ Culture & Leisure expenses cover Parks and Recreation services including the operation of the Recreation Center, the Youth Center, the City pool and the Library.

Business Type Activities

The City operates two business-type activities. These are the City's Water and Wastewater System. These business-type activities increased the City's net position by \$3.5 million, compared to an increase of \$3.0 million in the prior year FY 2018-2019.

As in prior years the City's Water System and Waste Water systems were supported primarily by user fees.

INTERNAL SERVICE FUNDS

The Internal Service Fund includes only the activity of the Employee Benefit Trust Fund (EBT). The EBT Fund accounts for the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been inactive since fiscal year 2002-03 after the City moved to a health insurance pool. All remaining funds will be used to supplement employee benefits.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

FINANCIAL ANALYSIS OF INDIVIDUAL FUNDS

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Please note that unlike the Government-wide financial statements displayed previously, the fund financial statements that follow are not reflected on a full accrual basis.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The financial performance of the City's traditional services such as public safety, highways and streets, culture and recreation and administration is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$12.2 million, an increase of \$4.4 million primarily due to a sales tax increase and fiscally responsible spending that limited the transfers to other funds.

The General Fund comprises 65.9 percent of the total fund balance. Approximately \$6.9 million or 86.5 percent of the General Fund's fund balance is unassigned. The fund balance increased \$3.2 million due to the sales tax increase and Council direction to reserve the additional resources.

The HURF Fund comprises 22.3 percent of the total fund balance. The fund balance increased \$611,004 due to unfinished projects that will be finished in future years.

The Transit Fund comprises 1.7 percent of the total fund balance. The fund balance increased \$213,734 due to the allocation of the .5% sales tax increase to the Transit program.

The Grant Fund comprises less than 1 percent of the total fund balance, all of which is restricted. The fund balance did not change from \$11,164 to \$11,164.

The Debt Service Fund comprises 3.0 percent of the total fund balances. All of the fund balance is restricted for debt service. Revenues are allocated from other funds to cover applicable debt service requirements for the year.

The Capital Projects Fund comprises 10.4 percent of the total fund balance. All of the fund balance is assigned or restricted for capital projects. The fund balance increased \$284,327 due to the allocation of a portion of the .5% sales tax increase of FY2019 to fund future capital improvements.

Proprietary Funds

Net position of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$47.0 million and \$97,325, respectively. The increase in net position in the Enterprise Funds of \$3.5 million from the prior fiscal year was primarily due to the funds not being used for capital projects in the current year but that will be needed to finish capital projects in future years.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the General Fund annual expenditure budget primarily due to changes in the council contingency reserve and projects that were not completed. The difference between the original budget and the final amended budget was a \$1.4 million increase, or 6 percent.

A schedule showing the budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. There were no significant variances.

Capital Assets

As of the end of the current fiscal year, the City had invested \$87.9 million in governmental capital assets and \$68.8 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent an increase prior to depreciation of \$592 thousand for the governmental activities and a decrease prior to depreciation of \$719 thousand for the business-type activities. The increase in the governmental activities was primarily due to various street improvements and other construction projects. The increase in the business-type activities was primarily due to various water and wastewater improvements and other construction projects. Total depreciation expense for the current fiscal year was \$3.0 million for governmental activities and \$1.8 million for business-type activities.

	Government Activities	Business-Type Activities	Total
<i>Non-Depreciable Assets:</i>			
Land	\$ 2,587,885	\$ 4,132,241	\$ 6,720,126
Construction in process	514,936	2,539,519	3,054,455
Total non-depreciable assets, net	3,102,821	6,671,760	9,774,581
<i>Depreciable Assets:</i>			
Infrastructure	29,946,665	45,558,993	75,505,658
Buildings and improvements	40,941,166	10,874,428	51,815,594
Vehicles, machinery and equipment	13,924,086	5,771,546	19,695,632
	84,811,917	62,204,967	147,016,884
Less accumulated depreciation	(41,688,354)	(27,231,613)	(68,919,967)
Total depreciable assets, net	43,123,563	34,973,354	78,096,917
Total capital assets	\$ 46,226,384	\$ 41,645,114	\$ 87,871,498

Additional information on the capital assets can be found in Note 5 on pages 69-70 of this report.

Debt Administration

At year-end, the City had \$19.4 million in governmental long-term debt outstanding with \$1.9 million due within one year. The City had \$22.7 million in business-type long-term debt outstanding, with \$1.5 million due within one year. Long-term debt decreased by \$2.0 million for governmental and decreased by \$1.5 million for business-type activities.

City of Cottonwood
Management's Discussion and Analysis (Unaudited) (Continued)
(Required Supplementary Information)
For the Year Ended June 30, 2020

State statutes currently limit the amount of general obligation debt a city may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the City is \$29.0 million. State statutes also currently limit the amount of general obligation debt a City may issue to six percent of its total assessed valuation for all other purposes. The current six percent debt limitation for the City is \$8.7 million. The City's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes.

Additional information on the City's long-term debt can be found in Notes 7 through 11 in the notes to the financial statements.

	Balance			Balance		Due within	Due in more
	June 30, 2019	Additions	Deletions	June 30, 2020	one year	than one year	
<u>Governmental Activities</u>							
Capital leases	\$ 1,844,552	\$ -	\$ (465,599)	\$ 1,378,953	\$ 485,106	\$ 893,847	
2015 Pledged revenue bonds	7,935,846	-	(369,408)	7,566,438	346,484	7,219,954	
2016 Pledged revenue bonds	<u>11,562,305</u>	<u>-</u>	<u>(1,148,590)</u>	<u>10,413,715</u>	<u>1,030,000</u>	<u>9,383,715</u>	
Total Government Activities	21,342,703	-	(1,983,597)	19,359,106	1,861,590	17,497,516	
<u>Business-Type Activities</u>							
2015 WIFA refunding loan	8,331,140	-	(650,812)	7,680,328	665,130	7,015,198	
2016 WIFA refunding loan	12,679,921	-	(707,727)	11,972,194	719,786	11,252,408	
2015 Pledged revenue bonds	<u>3,193,930</u>	<u>-</u>	<u>(149,015)</u>	<u>3,044,915</u>	<u>138,517</u>	<u>2,906,398</u>	
Total Business-Type Activities	24,204,991	-	(1,507,554)	22,697,437	1,523,433	21,174,004	
Total	\$ 45,547,694	\$ -	\$ (3,491,151)	\$ 42,056,543	\$ 3,385,023	\$ 38,671,520	

Economic Factors and Next Year's Budget

Many factors were considered by the City's officials during the process of developing the fiscal year 2020-21 budget. Among them:

- Fiscal year 2020-21 general fund budget balance carry forward (estimated \$5.6 million).
- Employee salaries and benefits (estimated at \$21.1 million).

Also considered in the development of the budget is the local economy and inflation of the surrounding area.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Cottonwood's finances for all those with an interest in the government finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Services Director, 827 N. Main St., Cottonwood, Arizona 86326.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

Basic Financial Statements

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

Government-Wide Financial Statements

City of Cottonwood
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
	ASSETS		
Current assets:			
Cash and investments	\$ 12,691,747	\$ 14,523,799	\$ 27,215,546
Receivables:			
Accounts	61,799	692,775	754,574
Taxes	609,282	-	609,282
Intergovernmental	977,034	-	977,034
Inventories	37,972	-	37,972
Prepaid items	79,145	-	79,145
Total current assets	<u>14,456,979</u>	<u>15,216,574</u>	<u>29,673,553</u>
Noncurrent assets:			
Restricted cash and investment	1,093,138	12,135,342	13,228,480
Aggregate net pension asset	6,614	-	6,614
Aggregate net OPEB asset	133,230	4,454	137,684
Capital assets:			
Nondepreciable	3,102,821	6,671,760	9,774,581
Depreciable, net	<u>43,123,563</u>	<u>34,973,354</u>	<u>78,096,917</u>
Total capital assets, net	<u>46,226,384</u>	<u>41,645,114</u>	<u>87,871,498</u>
Total noncurrent assets	<u>47,459,366</u>	<u>53,784,910</u>	<u>101,244,276</u>
Total assets	<u>61,916,345</u>	<u>69,001,484</u>	<u>130,917,829</u>

DEFERRED OUTFLOWS OF RESOURCES

Excess consideration provided for acquisitions (Note 6)	-	3,956,239	3,956,239
Deferred loss on refunding	251,141	-	251,141
OPEB-related deferred outflows	105,335	20,932	126,267
Pension-related deferred outflows	<u>4,874,685</u>	<u>256,798</u>	<u>5,131,483</u>
Total deferred outflows of resources	<u>5,231,161</u>	<u>4,233,969</u>	<u>9,465,130</u>

City of Cottonwood
Statement of Net Position (Continued)
June 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
Accounts payable	1,156,031	267,809	1,423,840
Accrued payroll and related liabilities	327,631	56,562	384,193
Interest payable	327,474	252,704	580,178
Deposits payable	55,529	217,562	273,091
Unearned revenue	9,548	-	9,548
Compensated absences - due within one year	880,333	53,076	933,409
Long-term debt - due within one year	1,861,590	1,523,433	3,385,023
Total current liabilities	<u>4,618,136</u>	<u>2,371,146</u>	<u>6,989,282</u>
Long-term liabilities:			
Compensated absences - due in more than one year	474,527	117,445	591,972
Long-term debt - due in more than one year	17,497,516	21,174,004	38,671,520
Aggregate net OPEB liability - due in more than one year	79,214	10,439	89,653
Aggregate net pension liability - due in more than one year	23,420,283	2,313,803	25,734,086
Total long-term liabilities	<u>41,471,540</u>	<u>23,615,691</u>	<u>65,087,231</u>
Total liabilities	<u>46,089,676</u>	<u>25,986,837</u>	<u>72,076,513</u>
DEFERRED INFLOWS OF RESOURCES			
OPEB-related deferred inflows	189,594	11,469	201,063
Pension-related deferred inflows	1,273,316	182,362	1,455,678
Total deferred inflows of resources	<u>1,462,910</u>	<u>193,831</u>	<u>1,656,741</u>
NET POSITION			
Net investment in capital assets	27,118,419	27,364,275	54,482,694
Restricted for:			
Debt service	348,011	7,674,983	8,022,994
Capital projects	842,316	-	842,316
Grants	11,164	-	11,164
Highways and streets	2,925,973	-	2,925,973
Total restricted	<u>4,127,464</u>	<u>7,674,983</u>	<u>11,802,447</u>
Unrestricted (deficit)	(11,650,963)	12,015,527	364,564
Total net position	<u>\$ 19,594,920</u>	<u>\$ 47,054,785</u>	<u>\$ 66,649,705</u>

City of Cottonwood
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues				Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary government:						
Governmental activities:						
General government	\$ 6,651,834	\$ 1,267,587	\$ 424,419	\$ 125,112	\$ 1,817,118	
Public safety	11,945,539	905,165	429,472	2,549	1,337,186	
Highways and streets	1,809,652	-	1,236,881	205,888	1,442,769	
Transportation	2,147,294	154,367	1,657,753	214,247	2,026,367	
Culture and leisure	4,455,091	775,578	23,932	222,804	1,022,314	
Interest and fiscal agent fees, net of amortization	650,224	-	-	-	-	
Total governmental activities	27,659,634	3,102,697	3,772,457	770,600	7,645,754	
Business-Type activities:						
Water	5,348,996	8,073,195	-	-	8,073,195	
Wastewater	2,830,268	3,266,899	-	-	3,266,899	
Total business-type activities	8,179,264	11,340,094	-	-	11,340,094	
Total primary government	\$ 35,838,898	\$ 14,442,791	\$ 3,772,457	\$ 770,600	\$ 18,985,848	

City of Cottonwood
Statement of Activities (Continued)
For the Year Ended June 30, 2020

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (4,834,716)	\$ -	\$ (4,834,716)
Public safety	(10,608,353)	- -	(10,608,353)
Highways and streets	(366,883)	- -	(366,883)
Transportation	(120,927)	- -	(120,927)
Culture and leisure	(3,432,777)	- -	(3,432,777)
Interest and fiscal agent fees, net of amortization	(650,224)	- -	(650,224)
Total governmental activities	(20,013,880)	- -	(20,013,880)
Business-Type activities:			
Water	- -	2,724,199	2,724,199
Wastewater	- -	436,631	436,631
Total business-type activities	- -	3,160,830	3,160,830
Total primary government	(20,013,880)	3,160,830	(16,853,050)
General revenues:			
Taxes:			
Sales tax	18,588,547	- -	18,588,547
Motor vehicle in-lieu taxes	866,283	- -	866,283
Franchise tax	303,659	- -	303,659
Transient occupancy tax	386,302	- -	386,302
Total taxes	20,144,791	- -	20,144,791
State share revenue	2,838,005	- -	2,838,005
Investment earnings	129,036	353,649	482,685
Miscellaneous	41,029	- -	41,029
Total general revenues	23,152,861	353,649	23,506,510
Change in net position	3,138,981	3,514,479	6,653,460
Net position - beginning of year	16,455,939	43,540,306	59,996,245
Net position - end of year	\$ 19,594,920	\$ 47,054,785	\$ 66,649,705

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Comprehensive Annual Financial Report
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Fund Financial Statements

Governmental Fund Financial Statements

Proprietary Fund Financial Statements

Fiduciary Fund Financial Statements

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Governmental Fund Financial Statements

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Comprehensive Annual Financial Report
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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Funds of the City are outlined below:

The General Fund - This fund accounts for all revenues and expenditures used to finance the traditional services associated with a municipal government which are not accounted for in the other funds. In Cottonwood, these services include general government, public safety, highways and streets, and culture and recreation.

City Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt.

City of Cottonwood
Balance Sheet
Governmental Funds
June 30, 2020

	Major Funds				
	General Fund	City Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds	
ASSETS					
Cash and cash investments	\$ 8,179,243	\$ 1,416,836	\$ 2,998,343	\$ 12,594,422	
Restricted cash and cash investments	-	199,832	893,306	1,093,138	
Receivables:					
Accounts	41,731	-	20,068	61,799	
Taxes	295,772	136,676	176,834	609,282	
Intergovernmental	119,030	-	858,004	977,034	
Due from other funds	428,025	-	-	428,025	
Inventories	24,044	-	13,928	37,972	
Prepaid items	62,944	16,201	-	79,145	
Total assets	\$ 9,150,789	\$ 1,769,545	\$ 4,960,483	\$ 15,880,817	
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 757,763	\$ -	\$ 398,268	\$ 1,156,031	
Accrued payroll and related liabilities	294,995	-	32,636	327,631	
Due to other funds	-	-	428,025	428,025	
Deposits payable	55,529	-	-	55,529	
Unearned revenue	-	-	9,548	9,548	
Interest payable - current portion	-	234,779	92,695	327,474	
Principal payable - current portion	-	1,170,554	205,930	1,376,484	
Total liabilities	1,108,287	1,405,333	1,167,102	3,680,722	
Fund Balances:					
Nonspendable	86,988	16,201	13,928	117,117	
Restricted	-	348,011	3,779,453	4,127,464	
Assigned	1,000,000	-	-	1,000,000	
Unassigned	6,955,514	-	-	6,955,514	
Total fund balances	8,042,502	364,212	3,793,381	12,200,095	
Total liabilities and fund balances	\$ 9,150,789	\$ 1,769,545	\$ 4,960,483	\$ 15,880,817	

See accompanying Notes to Basic Financial Statements.

City of Cottonwood
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2020

Total Fund Balances - Total Governmental Funds	\$ 12,200,095
Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>46,226,384</u>
Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.	
Compensated absences - due within one year	(880,333)
Compensated absences - due in more than one year	(474,527)
Long-term debt - due within one year	(1,861,590)
Long-term debt - due in more than one year	(17,497,516)
less amount reported in governmental fund financial statements for current portion	<u>1,376,484</u>
	<u>(19,337,482)</u>
Aggregate net pension asset in the governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>6,614</u>
Aggregate net OPEB asset in the governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>133,230</u>
Deferred loss on refunding in the governmental activities were not financial resources and therefore were not reported in governmental funds.	<u>251,141</u>
Actuarially determined deferred outflows of resources are reported in the government-wide statements:	
OPEB-related deferred outflows	105,335
Pension-related deferred outflows	<u>4,874,685</u>
	<u>4,980,020</u>
Aggregate net OPEB liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	<u>(79,214)</u>
Aggregate net pension liability is not due and payable in the current period and therefore is not required to be reported in the governmental funds.	<u>(23,420,283)</u>
Actuarially determined deferred inflows of resources are reported in the government-wide statements:	
OPEB-related deferred outflows	(189,594)
Pension-related deferred outflows	<u>(1,273,316)</u>
	<u>(1,462,910)</u>
Internal service funds were used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds were reported with governmental activities.	<u>97,325</u>
Net Position of Governmental Activities	<u>\$ 19,594,920</u>

City of Cottonwood
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020

	Major Funds				Total Governmental Funds
	General Fund	City Debt Service Fund	Non-Major Governmental Funds		
REVENUES:					
Taxes	\$ 15,846,525	\$ 1,642,174	\$ 1,789,809	\$ 19,278,508	
Intergovernmental	4,170,676	-	3,458,922	7,629,598	
Licenses and Permits	281,099	-	-	281,099	
Fines and Forfeitures	172,572	-	-	172,572	
Rents and royalties	129,751	-	-	129,751	
Investment Income	82,712	638	45,686	129,036	
Charges for Services	1,802,164	-	154,367	1,956,531	
Contributions	34,050	-	-	34,050	
Miscellaneous	1,180,456	-	7,014	1,187,470	
Total revenues	23,700,005	1,642,812	5,455,798	30,798,615	
EXPENDITURES:					
Current:					
General government	6,005,936	-	311,960	6,317,896	
Public safety	10,277,695	-	-	10,277,695	
Highways and streets	-	-	1,085,263	1,085,263	
Transportation	-	-	2,036,416	2,036,416	
Culture and leisure	3,550,868	-	59,032	3,609,900	
Capital outlay	154,909	-	437,533	592,442	
Debt service:					
Principal	425,553	1,170,553	245,977	1,842,083	
Interest and fiscal charges, net of amortization of deferred loss on refunding	126,026	474,284	187,179	787,489	
Total expenditures	20,540,987	1,644,837	4,363,360	26,549,184	
REVENUES OVER (UNDER) EXPENDITURES	3,159,018	(2,025)	1,092,438	4,249,431	
OTHER FINANCING SOURCES (USES):					
Sales of property	105,649	-	-	105,649	
Transfers in	-	-	230,361	230,361	
Transfers out	(16,627)	-	(213,734)	(230,361)	
Total other financing sources (uses)	89,022	-	16,627	105,649	
Net changes in fund balances	3,248,040	(2,025)	1,109,065	4,355,080	
FUND BALANCES:					
Beginning of year	4,794,462	366,237	2,684,316	7,845,015	
End of year	\$ 8,042,502	\$ 364,212	\$ 3,793,381	\$ 12,200,095	

City of Cottonwood
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
 and Changes in Fund Balance to the Government-Wide Statement of Activities**
For the Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	\$ 4,355,080
Governmental funds report capital outlay as expenditures. Capital outlay expenditures were included in the Statement of Revenue, Expenditures, and Changes in Fund Balances through out various departments. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	592,442
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(2,986,354)
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations, transfers, and disposals) decreased Net Position.	(36)
Accrual of long-term liabilities payable on July 1, 2020 was an expenditure in governmental funds, but had no effect in the Government-Wide Statement of Net Position.	1,376,484
Repayment of long-term liabilities due on January 1, 2020 was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.	
Debt retirements on the Government-Wide Statement of Net Position	1,814,939
Less: accrual of long-term liabilities payable on July 1, 2019	(1,349,340)
Total	465,599
Amortization expenses were reported in the Government-Wide Statement of Activities and Changes in Net Position, but they did not require the use of current financial resources. Therefore, amortization expenses were not reported as expenditures in the Governmental Funds.	
Bond premium and discount	168,658
Deferred amounts on refunding	(31,393)
The net effect of various miscellaneous transactions involving pension plans (i.e. changes in the net pension liability, deferred inflow/outflow amortization, contributions after measurement date) does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(838,096)
The net effect of various miscellaneous transactions involving OPEB plans (i.e. changes in the net OPEB (asset) liability, deferred inflow/outflow amortization, contributions after measurement date) does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	31,725
Certain long-term assets and liabilities were reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. Therefore, long-term assets and liabilities were not reported as expenditures in governmental funds. These amounts represented the changes in long-term liabilities from prior year.	
Changes in compensated absences	3,091
Internal service funds were used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds was reported with governmental activities.	1,781
Change in Net Position of Governmental Activities	<u>\$ 3,138,981</u>

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City of Cottonwood
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Proprietary Fund Financial Statements

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Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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PROPRIETARY FUND FINANCIAL STATEMENTS

Water Fund – This fund is used to account for the provision of water services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

Wastewater Fund – This fund is used to account for the provision of wastewater collection and treatment services to the residential, commercial, and industrial segments of the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

City of Cottonwood
Statement of Net Position
Proprietary Funds
June 30, 2020

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water Fund	Wastewater Fund	Total	
	ASSETS			
Current assets:				
Cash and cash investments	\$ 11,419,885	\$ 3,103,914	\$ 14,523,799	\$ 97,325
Receivables:				
Accounts	497,967	194,808	692,775	-
Total current assets	11,917,852	3,298,722	15,216,574	97,325
Noncurrent assets:				
Restricted cash and cash equivalents	10,727,774	1,407,568	12,135,342	-
Net OPEB Asset	3,092	1,362	4,454	-
Capital assets:				
Non-depreciable	3,189,987	3,481,773	6,671,760	-
Depreciable, net	10,308,809	24,664,545	34,973,354	-
Total capital assets	13,498,796	28,146,318	41,645,114	-
Total noncurrent assets	24,229,662	29,555,248	53,784,910	-
Total assets	36,147,514	32,853,970	69,001,484	97,325
DEFERRED OUTFLOWS OF RESOURCES				
Excess consideration provided for acquisitions	3,956,239	-	3,956,239	-
OPEB-related deferred outflows	14,531	6,401	20,932	-
Pension-related deferred outflows	178,275	78,523	256,798	-
Total deferred outflows of resources	4,149,045	84,924	4,233,969	-
LIABILITIES				
Current liabilities:				
Accounts payable	166,801	101,008	267,809	-
Accrued payroll and related liabilities	38,998	17,564	56,562	-
Interest payable	208,191	44,513	252,704	-
Deposits payable	217,562	-	217,562	-
Compensated absences - due within one year	42,753	10,323	53,076	-
Long-term debt - due within one year	1,426,580	96,853	1,523,433	-
Total current liabilities	2,100,885	270,261	2,371,146	-
Noncurrent liabilities:				
Compensated absences - due in more than one year	99,576	17,869	117,445	-
Long term debt - due in more than one year	19,096,984	2,077,020	21,174,004	-
Aggregate net OPEB liability	7,247	3,192	10,439	-
Aggregate net pension liability	1,606,288	707,515	2,313,803	-
Total noncurrent liabilities	20,810,095	2,805,596	23,615,691	-
Total liabilities	22,910,980	3,075,857	25,986,837	-
DEFERRED INFLOWS OF RESOURCES				
OPEB-related deferred outflows	7,961	3,508	11,469	-
Pension-related deferred inflows	126,599	55,763	182,362	-
Total deferred inflows of resources	134,560	59,271	193,831	-
NET POSITION				
Net investment in capital assets	1,391,830	25,972,445	27,364,275	-
Restricted for:				
Debt service	6,267,415	1,407,568	7,674,983	-
Unrestricted	9,591,774	2,423,753	12,015,527	97,325
Total net position	\$ 17,251,019	\$ 29,803,766	\$ 47,054,785	\$ 97,325

City of Cottonwood
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	
	Water Fund	Wastewater Fund	Total		
OPERATING REVENUES:					
Charges for services	\$ 8,048,738	\$ 3,266,717	\$ 11,315,455	\$	-
Other revenue	24,457	182	24,639		-
Total operating revenues	8,073,195	3,266,899	11,340,094		-
OPERATING EXPENSES:					
Salaries and benefits	1,970,238	787,856	2,758,094		-
Materials, supplies and operational expenses	1,773,542	1,150,153	2,923,695		-
Depreciation	1,021,814	812,765	1,834,579		-
Amortization	155,548	-	155,548		-
Total operating expenses	4,921,142	2,750,774	7,671,916		-
OPERATING INCOME					
	3,152,053	516,125	3,668,178		-
NONOPERATING REVENUES (EXPENSES):					
Investment income	313,725	39,924	353,649	1,781	
Interest expense	(410,694)	(79,494)	(490,188)		-
Gain (loss) on disposal of property	(17,160)	-	(17,160)		-
Total nonoperating revenues (expenses)	(114,129)	(39,570)	(153,699)		1,781
Changes in net position	3,037,924	476,555	3,514,479		1,781
NET POSITION:					
Beginning of year	14,213,095	29,327,211	43,540,306	95,544	
End of year	\$ 17,251,019	\$ 29,803,766	\$ 47,054,785	\$ 97,325	

City of Cottonwood
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	
	Water Fund	Wastewater Fund	Total		
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers and users	\$ 7,972,353	\$ 3,248,733	\$ 11,221,086	\$	-
Cash payments to suppliers for goods and services	(1,704,786)	(1,141,203)	(2,845,989)		-
Cash payments to employees for services	(1,725,032)	(743,011)	(2,468,043)		-
Net cash provided by operating activities	4,566,992	1,364,701	5,931,693		-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of capital assets	(252,277)	(486,660)	(738,937)		-
Sale of capital assets	9,959	1,449	11,408		-
Principal paid on capital-related debt	(1,399,386)	(94,813)	(1,494,199)		-
Interest paid on capital-related debt	(422,222)	(89,996)	(512,218)		-
Net cash (used in) capital and related financing activities	(2,063,926)	(670,020)	(2,733,946)		-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	313,725	39,924	353,649	1,781	
Net cash provided by investing activities	313,725	39,924	353,649	1,781	
Net increase in cash and cash equivalents	2,816,791	734,605	3,551,396	1,781	
CASH AND CASH EQUIVALENTS:					
Beginning of year	19,330,868	3,776,877	23,107,745	95,544	
End of year	\$ 22,147,659	\$ 4,511,482	\$ 26,659,141	\$ 97,325	
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION:					
Cash and cash investments	\$ 11,419,885	\$ 3,103,914	\$ 14,523,799	\$ 97,325	
Restricted cash and investments	10,727,774	1,407,568	12,135,342	-	
Total cash and cash equivalents	\$ 22,147,659	\$ 4,511,482	\$ 26,659,141	\$ 97,325	

City of Cottonwood
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2020

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds	
	Water Fund	Wastewater Fund	Total		
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:					
Operating income	\$ 3,152,053	\$ 516,125	\$ 3,668,178	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Depreciation	1,021,814	812,765	1,834,579		-
Amortization	155,548	-	155,548		-
Changes in current assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
Accounts receivable	(43,527)	(17,984)	(61,511)		-
Aggregate net OPEB asset	(6,652)	(3,107)	(9,759)		-
OPEB-related deferred outflows	(251)	597	346		-
Pension-related deferred outflows	27,137	22,180	49,317		-
Accounts payable	68,756	8,950	77,706		-
Accrued payroll and related liabilities	10,432	4,333	14,765		-
Deposits payable	(32,858)	-	(32,858)		-
Compensated absences	3,897	4,595	8,492		-
Aggregate net OPEB liability	2,139	688	2,827		-
Aggregate net pension liability	245,695	40,489	286,184		-
OPEB-related deferred outflows	(2,935)	(1,835)	(4,770)		-
Pension-related deferred inflows	(34,256)	(23,095)	(57,351)		-
Total adjustments	1,414,939	848,576	2,263,515		-
Net cash provided by operating activities	\$ 4,566,992	\$ 1,364,701	\$ 5,931,693		\$ -

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Fiduciary Fund Financial Statements

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FIDUCIARY FUND FINANCIAL STATEMENTS

Firemen Pension Trust Fund - This fund accounts for the activities of the Firefighters' Relief and Pension Trust Fund, which accumulates funds for the defined contribution pension plan administered by the City and a Board of Trustees for the City's volunteer firefighters.

City of Cottonwood
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City of Cottonwood
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020

	Firemen Pension Trust Fund
ASSETS	
Restricted cash and investments	\$ 205,473
Total assets	\$ 205,473
NET POSITION RESTRICTED FOR PENSIONS	
Held in trust	\$ 205,473
Total net position	\$ 205,473

City of Cottonwood
Statement of Change in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020

	Firemen	Pension	Trust Fund
ADDITIONS:			
Investment income	\$	8,713	
Total additions		8,713	
DEDUCTIONS:			
Retirement benefits		1,800	
Miscellaneous expense		5,328	
Total deductions		7,128	
Change in fiduciary net position		1,585	
NET POSITION RESTRICTED FOR PENSIONS:			
Beginning of year		203,888	
End of year	\$	205,473	

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Notes to the Basic Financial Statements

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City of Cottonwood
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City of Cottonwood
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of the City of Cottonwood, Arizona (the “City”), have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

A. *Financial Reporting Entity*

The City was incorporated on November 14, 1960. The City operates under a Mayor-Council-Manager form of government and provides the following services: public safety (police and fire), highways and streets, transportation, social services, culture-leisure, public improvements, community development (planning, building and zoning), public utilities (water and wastewater), and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude its financial statements. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Blended Component Units

The financial reporting entity consists of the primary government, the City, and its component units. Component units are legally separate entities for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government is accountable and their exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Blended component units, although legally separate entities, are, in substance part of the government’s operation and so financial statements from these units are combined with financial statements of the primary government. Discretely presents component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Although the following are legally separate from the City, they have been “blended” as though they are part of the City because the component unit’s governing body is substantially the same as the City’s and there is a financial benefit or burden relationship between the City and the component unit; management of the City has operational responsibilities for the component units; and/or the component units provide services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City, even though it does not provide services directly to it.

Cottonwood Municipal Property Corporation (the “Corporation”) – The Corporation’s board of directors consists of three members, which are appointed by the Cottonwood City Council. The Corporation is a nonprofit corporation incorporated under the laws of the State of Arizona and was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. It has a June 30 year-end and is reported within the Water Fund. No separate financial statements are issued for Corporation.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/net position, revenues, and expenditures or expenses as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

The Statement of Net Position reports separate sections for Deferred Outflows of Resources and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

Government-Wide Financial Statements

The City's government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental and business-type activities for the City, and its component units, accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the statement of net position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. (In the statement of activities, internal service fund transactions have been eliminated.) However, transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences between fund balance in these statement and net position as presented in the government-wide financial statements. The City has presented all major funds that meet the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both “measurable” and “available” to finance expenditures of the current period.

The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, franchise taxes, state shared revenues, licenses and permits, charges for services, intergovernmental revenues, charges for services, and investment income. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until cash is received. Revenues are considered to be available when they are collectible within the current period as 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. Unearned revenues arise when resources are received by the City before it has a legal claim to them, such as when grant revenue is received prior to meeting all eligibility requirements imposed by the grantor.

Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due. As permitted by generally accepted accounting principles the City applies the “early recognition” option for debt service payments when there are sufficient resources to offset the liability. Pledged sales tax is recognized during the current year for the payment of debt service principal and interest due early in the following year (less than one month). Therefore, the expenditures and related liability are recognized in the current period.

Major governmental funds of the City are outlined below:

General Fund – This fund accounts for all revenues from and expenditures for services associated with the operations of a municipal government which are not accounted for in the other funds. These services include general government, public safety, highways and streets, transportation, and culture and recreation.

City Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of principal, interest, and related costs of the debt.

Non-major governmental funds of the City are outlined below:

Grants Special Revenue Fund – This fund is used to account for the City's restricted resources from federal, state, and other grants.

HURF Special Revenue Fund – This fund accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the principal and interest on highway and street bonds.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Transit Special Revenue Fund – This fund accounts for the operation of the City's public transportation system.

City Capital Projects Fund – This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows for each major proprietary fund and non-major funds in the aggregate. The City reports the following major proprietary fund types:

Water Fund – This fund accounts for the City's water utility.

Wastewater Fund – This fund accounts for the City's wastewater operations.

A separate column representing internal service funds is also presented in these statements. The City's internal service fund accounts for the activity of the Employee Benefit Trust Fund (EBT). The EBT is the City's partially self-funded health and accident insurance program for certain City employees and their dependents. The EBT has been closed since fiscal year 2002-03 after the City moved to the Arizona Public Employers Health Pool. Remaining funds are used to supplement employee benefits by providing City-wide health programming to encourage increased health awareness and healthy living. By providing additional health benefits the City hopes to also help decrease medical claims and therefore medical insurance costs. For the government-wide financial statements, the internal service fund balances and activities have been combined with the governmental activities.

Proprietary funds are accounted for using the *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal activities are charges to customers for water and wastewater services and expenditures for maintenance, operations, administration, depreciation. Revenues not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Fund Financial Statements

Fireman Pension Trust Fund – This fund accounts for the activities of the Firefighters' Relief and Pension Trust Fund, which accumulates funds for the defined contribution pension plan administered by the City and a Board of Trustees for the City's volunteer firefighters.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

The City considers all highly liquid market investments (including restricted investments) with maturities of three months or less at time of purchase to be cash equivalents. Cash equivalents are reported in cash and investment and, consist of cash on hand, cash in bank, cash held by fiscal agents, and cash and investment held in the State Treasurer's Local Government Investment Pool. Money market investments are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds. All expenditures of the City are made out of the General Fund operations account (except for EBT) with a corresponding interfund receivable recorded in the general fund with an interfund payable recorded in the applicable borrowing fund. At the end of the month, the interfund receivable and payables are liquidated when cash is transferred. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

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 or duly organized school districts, improvement districts in this state, and the State Treasurer's LGIP.

The City participates in an investment pool, *State Treasurer's Local Government Investment Pool* (LGIP), managed by the State of Arizona. The LGIP has invested a portion of the pool funds in structured notes and asset-backed securities. LGIP's investments are subject to credit risk with the full faith and credit of the State of Arizona collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

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

The Arizona Government Code requires Arizona banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name. The market value of pledged securities must equal at least 110% of the City's cash deposits. Arizona law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits; however, the City has not waived the collateralization requirements

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Restricted Cash and Investments

Certain cash and investments held by a fiscal agent from bond proceeds of City issued bond and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable bond indentures or loan covenants. In addition, deposits received from customers for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

E. Fair Value Measurement

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, this statement defines fair value, establishes a framework for measuring fair value and establishes disclosures about fair value measurement. Investments, unless otherwise specified, recorded at fair value in the Statements of Net Position, are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Levels of inputs are as follows:

Level 1 – Inputs are unadjusted, quoted prices for identical assets and liabilities in active markets at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the assets or liabilities through corroboration with market data at the measurement date.

Level 3 – Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the assets or liabilities at the measurement date.

F. Excess Consideration Provided for Acquisitions

Excess consideration were amounts paid by the City over the net position of the acquired entity and is recorded as a Deferred Outflow on the Statement of Net Position of the City. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

G. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost. Donated capital assets are valued at their acquisition value on the date donated. City policy has set the capitalization threshold for capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Asset Category	Estimated Useful Life (Years)
Buildings and improvements	15-40 years
Improvements other than buildings	8-40 years
Infrastructure	20 years
Machinery and equipment	5-25 years
Vehicles	5-8 years
Water distribution system	5-30 years

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

G. Capital Assets (Continued)

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include streets, sewer, and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. The carrying amount of the subsystems are not required to be separately classified and reported in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

For all infrastructure systems, the City elected to use the Basic Approach for infrastructure reporting. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements. Infrastructure assets acquired after that date are recorded at historical cost, or estimated historical cost if actual historical cost is not available.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized.

H. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financial obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are expensed in the period when incurred.

Fund Financial Statements

The fund financial statements do not present long-term debt but rather show it in the reconciliation of the governmental funds balance sheet to the government-wide statement of net position.

When refunding bonds are issued, the difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Unamortized portions of the loss on refunding debt are reported as deferred outflows of resources.

I. Compensated Absences

Government-Wide Financial Statements

City employees have vested interest in varying levels of vacation and sick leave based on both their length of employment and their bargaining unit. Vacation leave is payable to employees at the time a vacation is taken or upon termination of employment with the City. The amount of compensated absences is accrued when earned in the government-wide financial statements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

I. Compensated Absences (Continued)

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the City's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. When an employee is terminated at fiscal year end, the amount of his or her reimbursable unused vacation and/or sick leave is recorded as a liability in the governmental funds. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund.

J. Pensions Plans and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans (Note 10). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. The following timeframes are used for pension reporting:

The following timeframes are used for pension/OPEB reporting:

<u>ASRS</u>	
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019
<u>PSPRS</u>	
Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension/OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions/OPEB and are to be recognized in future pension/OPEB expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over five years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

K. Net Position

For government-wide and proprietary fund financial statements, net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, increased by the deferred outflows related to excess consideration provided for acquisition, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets and unspent bond proceeds.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When expenses are incurred for purposes for which both restricted and unrestricted net position is available, the City's policy is to apply restricted net position first.

L. Fund Balances

For governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories and long-term receivables, or items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations imposed by the formal action of the government's highest level of decision making authority normally through resolutions, etc., and that remain binding unless rescinded or modified in the same manner. The City Council is considered the highest authority for the City.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. In fiscal year ending June 30, 2012, the City Council adopted the Fund Balance Policy XVII in the Financial Operations Guide adopting the fund balance policy authorizing the Administrative Services General Manager to make the assignments.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that can report a deficit unassigned fund balance amount. In other governmental funds, it is not appropriate to report a deficit unassigned fund balance amount. However, in a governmental fund other than the general fund, expenditures incurred for a specific purpose might exceed the amounts in the fund that are restricted, committed, and assigned to that purpose and a negative residual balance for that purpose may result. If that occurs, amounts assigned to other purposes in that fund should be reduced to eliminate the deficit. If the remaining deficit eliminates all other assigned amounts in the fund, or if there are no amounts assigned to other purposes, the negative residual amount is classified as unassigned fund balance.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

L. Fund Balances (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed. When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses the unrestricted resources in the following order: committed, assigned, and unassigned.

The City has established a minimum fund balance policy for each governmental fund type which contains operating expenses. The minimum unassigned fund balance in the General Fund is not less than 16.66 percent and not more than 25 percent of the total revised budgeted operating expenditures. The minimum assigned fund balance for general capital purposes in the General Fund is not less than 2.67 percent of the total revised budgeted operating revenues and not more than \$1,000,000. The minimum assigned fund balance for public safety capital purposes in the General Fund is not less than \$100,000. The minimum assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

M. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosure. Accordingly, actual results could differ from those estimates.

N. New Governmental Accounting Standards Implemented

The requirements of the following accounting standards are effective for the purpose of implementation, if applicable to the City, for the year ended June 30, 2020. The financial statements included herein apply the requirements and provisions of these statements, including necessary retroactive adjustments to financial statement classifications and presentations.

GASB Statement No. 95

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Application of this statement did not have a material effect on the City's financial statements for the fiscal year ending June 30, 2020.

O. Upcoming Governmental Accounting Standards Implementation

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, Fiduciary Activities. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Application of this statement is effective for the City's fiscal year ending June 30, 2021.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Application of this statement is effective for the City's fiscal year ending June 30, 2022.

GASB Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Application of this statement is effective for the City's fiscal year ending June 30, 2022.

GASB Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. Application of this statement is effective for the City's fiscal year ending June 30, 2021.

GASB Statement No. 91

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. Application of this statement is effective for the City's fiscal year ending June 30, 2023.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 92

In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Application of this statement is effective for the City's fiscal year ending June 30, 2022.

GASB Statement No. 93

In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. Application of this statement is effective for the City's fiscal year ending June 30, 2022.

GASB Statement No. 94

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Application of this statement is effective for the City's fiscal year ending June 30, 2023.

GASB Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Application of this statement is effective for the City's fiscal year ending June 30, 2023.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies (Continued)

O. Upcoming Governmental Accounting Standards Implementation (Continued)

GASB Statement No. 97

In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Application of this statement is effective for the City's fiscal year ending June 30, 2022.

Note 2 – Cash and Investments

The following is a summary of cash and investments and restricted cash and investments at June 30, 2020:

	Primary Government			Fiduciary	
	Governmental Activities	Business-type Activities	Total	Funds	Total
Cash and investments	\$ 12,691,747	\$ 14,523,799	\$ 27,215,546	\$ -	\$ 27,215,546
Restricted cash and investments	1,093,138	12,135,342	13,228,480	205,473	13,433,953
Total	\$ 13,784,885	\$ 26,659,141	\$ 40,444,026	\$ 205,473	\$ 40,649,499

Cash, cash equivalents, and investments, excluding investments with fiscal agents, consisted of the following at June 30, 2020:

Cash and cash equivalents:	
Petty cash	\$ 3,043
Demand deposits	10,549,394
Restricted demand deposits	4,768,618
Money market	18,007
Investments:	
Local Government Investment Pool	13,782,256
Mutual funds	231,351
U.S. Treasuries and Agencies	11,296,830
Total	\$ 40,649,499

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

At June 30, 2020, cash and investments, are reported at fair value based on quoted market prices. The following table represents the fair value measurements of investments recognized in the accompanying Statement of Net Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2020:

Investments by Fair Value Level	Total Fair Value	Measurement Inputs	Valuation Technique
Investment Type			
Investments:			
U.S. Treasuries and Agencies	\$ 11,296,830	Level 2	Matrix pricing model
Mutual Funds	231,351	Uncategorized	N/A
Total investments by fair value level	<u>\$ 11,528,181</u>		
External Investment Pools Measured at Fair Value			
Local Government Investment Pool	\$ 13,782,256	Uncategorized	
Total investment pools, measured at fair value	<u>13,782,256</u>		
Total investments	<u>\$ 25,310,437</u>		

A. Cash Deposits

The carrying amounts of the City's demand deposits were \$10,549,394 at June 30, 2020. Bank balances were \$11,207,250 at that date. Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

B. Investments

Under the provisions of the City's investment policy, and in accordance with Arizona Government Code (A.S.R.), the following investments are authorized:

- Securities of the U.S. Government or its agencies
- Interest-bearing savings accounts and certificates of deposit
- State Treasurer's Loan Government Investment Pools
- County Treasurer's investment pool
- Collateralized repurchase agreements
- Certain obligations of U.S. corporations
- Certain other securities

No current adjustments have been made to the accompanying basic financial statements because the City's investments were primarily in the State of Arizona Loan Government Investment Pool (Pool 7) and the fair value adjustment was immaterial. The fair value of the City's position in LGIP approximates the value of the pool shares.

C. External Investment Pool

Investments in the State Treasurer's LGIP (Pool 7), a state managed external investment pool, are valued at the pool's share price multiplied by number of shares the City held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 2 – Cash and Investments (Continued)

D. Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity, the greater the sensitivity its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2020, the City's investments had the following maturities:

	Amount	Weighted Average Maturities (in Years)	
		1 year or less	1 - 5 years
Investments:			
Local Government Investment Pool	\$ 13,782,256	\$ 13,782,256	\$ -
Mutual funds	231,351	231,351	-
U.S. Treasuries and Agencies	11,296,830	6,603,624	4,693,206
Total	\$ 25,310,437	\$ 20,617,231	\$ 4,693,206

Credit Risk

Credit Risk is the risk of loss due to failure of the security issuer. The risk can be identified thru the rating assigned by a nationally recognized statistical rating organization to the issuers of securities. The City minimizes this risk by investing only in the type of investments allowed for municipalities by the Government Code as listed on the City's investment policy and in instruments that are most credit worthy.

	Amount	Credit Quality Ratings	
		Moody's	Standard & Poor's
Investments:			
Local Government Investment Pool	\$ 13,782,256	Unrated	Not applicable
Mutual funds	231,351	Not Rated	Not Rated
U.S. Treasuries and Agencies	11,296,830	Aaa	AA+
Total	\$ 25,310,437		

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the City's investments were subject to custodial credit risk.

Concentration of Credit Risk

In accordance with its investment policy, the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Total investments in two categories may not exceed 25 percent of the investment portfolio: (1) fully insured or collateralized certificates of deposit (2) State, county, school district, and other district municipal bonds with an A rating or better. More than five percent of the City's investments are held in U.S. Treasuries and Agencies. These investments are 46 percent of the City's total investments.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 3 – Receivables

Receivable balances, net of allowance for uncollectible accounts, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectible accounts, as of year-end for the City's individual governmental funds were as follows:

	General Fund	HURF Fund	HURF Fund	Transit Fund	City Capital Projects Fund	Total
Due from federal government	\$ -	\$ 52,515	\$ -	\$ -	\$ -	\$ 52,515
Due from state government	107,176	-	86,412	694,529	-	888,117
Due from county government	11,854	22,578	-	-	1,970	36,402
Total	\$ 119,030	\$ 75,093	\$ 86,412	\$ 694,529	\$ 1,970	\$ 977,034

Note 4 – Interfund Balances and Transactions

A. Due to and from other funds

Due from and to other funds as of June 30, 2020, was as follows:

Receivable Fund	Payable Fund	Amount	Purpose
General Fund	Transit Fund	\$ 428,025	Overdrawn Cash

Current interfund balances arise in the normal course of business and to assist funds with negative cash balances at the end of the fiscal year. They are expected to be repaid shortly after the end of the fiscal year.

B. Transfers

At June 30, 2020, the City had the following transfers:

Transfers In	Transfers Out	Amount	Purpose
Grants Fund	General Fund	\$ 13,179	Grant matching funds
Transit Fund	General Fund	3,448	Grant matching funds
Transit Fund	HURF Fund	213,734	Cash allocation correction
	Total	\$ 230,361	

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 5 – Capital Assets

A. Governmental Activities

Summary of changes in capital assets for governmental activities for the year ended June 30, 2020 is as follows:

	Balance				Transfers/	Balance
	July 1, 2019	Additions	Deletions	Reclassifications		June 30, 2020
Nondepreciable assets:						
Land	\$ 2,587,885	\$ -	\$ -	\$ -	\$ 2,587,885	
Construction in progress	467,319	436,943	-	(389,326)	514,936	
Total nondepreciable assets	3,055,204	436,943	-	(389,326)	3,102,821	
Depreciable assets						
Infrastructure	29,682,148	-	-	264,517	29,946,665	
Building and improvements	40,907,201	34,725	(760)	-	40,941,166	
Vehicles, machinery and equipment	14,048,931	120,774	(370,428)	124,809	13,924,086	
Subtotal	84,638,280	155,499	(371,188)	389,326	84,811,917	
Less accumulated depreciation						
Infrastructure	(14,423,142)	(954,353)	-	-	(15,377,495)	
Building and improvements	(13,941,017)	(1,067,968)	760	-	(15,008,225)	
Vehicles, machinery and equipment	(10,708,993)	(964,033)	370,392	-	(11,302,634)	
Subtotal	(39,073,152)	(2,986,354)	371,152	-	(41,688,354)	
Total depreciable assets, net	45,565,128	(2,830,855)	(36)	389,326	43,123,563	
Total	\$ 48,620,332	\$ (2,393,912)	\$ (36)	\$ -	\$ 46,226,384	

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2020 are as follows:

General government	\$ 514,929
Public safety	504,666
Highways and streets	574,451
Transportation	574,450
Culture and recreation	817,858
Total depreciation expense	\$ 2,986,354

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 5 – Capital Assets (Continued)

B. Business-Type Activities

Summary of changes in capital assets for business-type activities for the year ended June 30, 2020 is as follows:

	Balance			Transfers/		Balance
	July 1, 2019	Additions	Deletions	Reclassifications		June 30, 2020
Nondepreciable assets:						
Land	\$ 4,132,241	\$ -	\$ -	\$ -		\$ 4,132,241
Construction in progress	2,476,400	461,192	-	(398,073)		2,539,519
Total nondepreciable assets	6,608,641	461,192	-	(398,073)		6,671,760
Depreciable assets						
Water distribution system	17,460,293	44,624	(43,253)	-		17,461,664
Wastewater systems	28,376,322	56,334	(335,327)	-		28,097,329
Building and improvements	10,476,355	-	-	398,073		10,874,428
Vehicles, machinery and equipment	5,668,524	176,787	(73,765)	-		5,771,546
Subtotal	61,981,494	277,745	(452,345)	398,073		62,204,967
Less accumulated depreciation						
Water distribution system	(8,959,878)	(636,953)	23,292	-		(9,573,539)
Wastewater systems	(9,663,574)	(553,599)	335,327	-		(9,881,846)
Building and improvements	(3,074,384)	(256,341)	-	-		(3,330,725)
Vehicles, machinery and equipment	(4,131,582)	(387,686)	73,765	-		(4,445,503)
Subtotal	(25,829,418)	(1,834,579)	432,384	-		(27,231,613)
Total depreciable assets, net	36,152,076	(1,556,834)	(19,961)	398,073		34,973,354
Total	\$ 42,760,717	\$ (1,095,642)	\$ (19,961)	\$ -		\$ 41,645,114

Business-type activities depreciation expenses for capital assets for the year ended June 30, 2020 are as follows:

Water	1,021,814
Wastewater	812,765
Total depreciation expense	\$ 1,834,579

Note 6 – Excess Consideration Provided for Acquisition

In the fiscal year ended June 30, 2005, the City acquired three water companies. In the fiscal year ended June 30, 2006, the City acquired one water company. The net excess of the cost of the acquired water companies over the amounts assigned to net position acquired is reported as goodwill in the City's deferred outflow of resources. Amortization expense for the fiscal year was \$155,548.

	2005	2006	Business-Type
	Purchase	Purchase	Activities
	Total		
Excess Consideration Provided for Acquisition	\$ 1,474,221	\$ 4,851,022	\$ 6,325,243
Less: Accumulated amortization	(579,610)	(1,789,394)	(2,369,004)
Total	\$ 894,611	\$ 3,061,628	\$ 3,956,239

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Long-Term Debt

A. Governmental Activities

Summary of changes in long-term liabilities for the governmental activities for the year ended June 30, 2020 is as follows:

	Balance July 1, 2019	Debt Issued	Debt Retired	Balance June 30, 2020	Classification	
					Due within One Year	Due in More Than One Year
Governmental Activities:						
Capital leases	\$ 1,844,552	\$ -	\$ (465,599)	\$ 1,378,953	\$ 485,106	\$ 893,847
Revenue bonds:						
2015 Pledged revenue bonds	7,454,764	-	(339,340)	7,115,424	346,484	6,768,940
Plus: unamortized premium	481,082	-	(30,068)	451,014	-	451,014
2016 Pledged revenue bonds	10,315,000	-	(1,010,000)	9,305,000	1,030,000	8,275,000
Plus: unamortized premium	1,247,305	-	(138,590)	1,108,715	-	1,108,715
Total revenue bonds	19,498,151	-	(1,517,998)	17,980,153	1,376,484	16,603,669
Total	\$ 21,342,703	\$ -	\$ (1,983,597)	\$ 19,359,106	\$ 1,861,590	\$ 17,497,516

Capital Leases

The City has entered into several lease agreements for the financing of a fire truck, street sweeper, exercise equipment, and police vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the date of inception.

The annual debt service requirements for the capital leases payable outstanding at June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 485,106	\$ 76,969	\$ 562,075
2022	510,647	49,912	560,559
2023	334,072	21,615	355,687
2024	49,128	967	50,095
Total	\$ 1,378,953	\$ 149,463	\$ 1,528,416

The City entered into capital lease-purchase agreements whereby the lessor acquired certain capital assets and leased them to the City with the option to purchase. The leased assets are included in capital assets and are summarized by major asset class below:

Machinery, vehicles, and equipment	\$ 2,607,317
Less: accumulated depreciation	(1,140,852)
Total	\$ 1,466,465

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds provided financing for ongoing capital projects and were allocated between governmental activities (\$8.1 million) and business-type activities (\$3.2 million).

The City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds. The government activities portion of the bonds are payable from revenues received from state shared revenues and excise taxes. The business-type activities portion of the bonds are payable from net revenues received from the City's Water System.

The bonds are payable through 2034. The total principal and interest remaining to be paid on the governmental portion of the bonds is \$11.0 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$4.4 million.

The 2015 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 346,484	\$ 304,995	\$ 651,479
2022	360,772	293,557	654,329
2023	371,488	283,475	654,963
2024	382,204	268,347	650,551
2025	400,064	248,790	648,854
2026-2030	2,325,372	914,339	3,239,711
2031-2035	2,929,040	305,155	3,234,195
Total	\$ 7,115,424	\$ 2,618,658	\$ 9,734,082

2016 Pledged Revenue Bonds

On August 18, 2016, the City issued Pledged Revenue Refunding Obligations, Series 2016 in the amount of \$12,350,000, maturing through 2027 in annual principal payments ranging in amounts from \$980,000 to \$1,320,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds were used to refund the Greater Arizona Development Authority Loan from 2007. The bonds are secured by the City's Excise Tax Revenues and State Shared Revenues. Bonds outstanding at June 30, 2020 were \$9,305,000.

The 2016 bonds requires that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

2016 Pledged Revenue Bonds (Continued)

The annual debt service requirements are as follows:

Year Ending					Total
June 30,	Principal	Interest			
2021	\$ 1,030,000	\$ 331,438	\$ 1,361,438		
2022	1,055,000	304,025	1,359,025		
2023	1,085,000	261,075	1,346,075		
2024	1,145,000	216,775	1,361,775		
2025	1,175,000	176,100	1,351,100		
2026-2028	3,815,000	128,100	3,943,100		
Total	\$ 9,305,000	\$ 1,417,513	\$ 10,722,513		

B. Business-Type Activities

Summary of changes in long-term liabilities for the business-type activities for the year ended June 30, 2020 is as follows:

	Balance	Debt Issued/ Adjustment	Debt Retired	Balance	Classification		
					July 1, 2019	June 30, 2020	Due within One Year
Business-Type Activities:							
Loans payable:							
2015 WIFA refunding loan	\$ 8,331,140	\$ -	\$ (650,812)	\$ 7,680,328	\$ 665,130	\$ 7,015,198	
2016 WIFA refunding loan	12,679,921	-	(707,727)	11,972,194	719,786	11,252,408	
Total loans payable	<u>21,011,061</u>	<u>-</u>	<u>(1,358,539)</u>	<u>19,652,522</u>	<u>1,384,916</u>	<u>18,267,606</u>	
Revenue bonds:							
2015 Pledged revenue bonds	2,980,236	-	(135,660)	2,844,576	138,517	2,706,059	
Plus: unamortized premium	213,694	-	(13,355)	200,339	-	200,339	
Total revenue bonds	<u>3,193,930</u>	<u>-</u>	<u>(149,015)</u>	<u>3,044,915</u>	<u>138,517</u>	<u>2,906,398</u>	
Total	<u>\$ 24,204,991</u>	<u>\$ -</u>	<u>\$ (1,507,554)</u>	<u>\$ 22,697,437</u>	<u>\$ 1,523,433</u>	<u>\$ 21,174,004</u>	

2015 Water Infrastructure Financing Authority Loan

On June 19, 2015, the City entered into a loan with the Water Infrastructure Financing Authority (WIFA). The original loan amount as of the closing date was \$11,247,154, however, \$550,000 of this principal amount was forgiven leaving a remaining repayment amount of \$10,697,154. This loan refunded the remainder of the MPC Series 2004 revenue bonds. The refunding was undertaken to reduce total debt service payments over the next 15 years by \$2.1 million.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2015 Water Infrastructure Financing Authority Loan (Continued)

Proceeds of the loan provided financing for the replacement of water lines along Mingus Avenue as well as refunded the remainder of the MPC Series 2004 revenue bonds. The loan is secured solely from a pledge of net system water revenues and debt service payments are payable through 2030. The remaining principal balance on the MPC Series 2004 revenues bonds was \$6.8 million as of June 30, 2020.

The total principal and interest remaining to be paid on the loan is \$8.6 million. The debt principal and interest paid on this debt during fiscal year 2020 was \$826,938 (approximately six percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

The annual requirements to amortize the bonds outstanding at June 30, 2020, are as follows:

Year Ending					Total
June 30,	Principal	Interest			
2021	\$ 665,130	\$ 161,651	\$ 826,781		
2022	679,763	146,857	826,620		
2023	694,718	131,738	826,456		
2024	710,001	116,286	826,287		
2025	725,621	100,494	826,115		
2026-2030	3,874,703	253,161	4,127,864		
2031	330,392	3,634	334,026		
Total	\$ 7,680,328	\$ 913,821	\$ 8,594,149		

2016 Water Infrastructure Financing Authority Loan

On May 20, 2016, the City entered into a refunding loan with WIFA. The original loan amount as of the closing date was \$16,000,000, however, \$800,000 of this principal amount was forgiven leaving a remaining repayment amount of \$15,200,000. The forgivable portion of the loan proceeds along with \$1,140,000 of unforgivable loan proceeds have not been drawn down as of June 30, 2018. The net proceeds from the refunding loan of \$20,581,226 were used to purchase securities which remain in a cash account held by the trustee at June 30, 2018. The securities purchased will provide for all future debt service payments of the MPC Series 2006 revenue bonds. Accordingly, the MPC Series 2006 revenue bonds are considered defeased as of July 1, 2016. A portion of the net proceeds, \$5,500,000, was also used to defease the Town of Clarkdale's portion of the MPC Series 2006 bonds which paid off the City's receivable from the Town of Clarkdale. The refunding was undertaken to reduce total debt service payments over the next 19 years by \$5.0 million. The remaining principal balance on the MPC Series 2006 revenues bonds was \$17.4 million as of June 30, 2020.

Proceeds of the loan also provided financing to equip the State Route 260 well site and construct a water line. The loan is secured solely from a pledge of net system water revenues and are debt service payments are payable through 2036. The total principal and interest remaining to be paid on the loan is \$14.4 million. The debt principal and interest paid on this debt during fiscal year 2020 was \$917,763 (approximately five percent of pledged revenues).

The loan agreement requires that the City maintain a 1.35 times coverage ratio of net water system revenues to current year debt service payments. The City has met its coverage requirements.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 7 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2016 Water Infrastructure Financing Authority Loan (Continued)

The annual requirements to amortize the bonds outstanding at June 30, 2020, are as follows:

Year Ending					
June 30,		Principal	Interest	Total	
2021	\$	719,786	\$ 197,874	\$ 917,660	
2022		732,051	185,504	917,555	
2023		744,526	172,924	917,450	
2024		757,212	160,129	917,341	
2025		770,115	147,116	917,231	
2026-2030		4,051,947	532,492	4,584,439	
2031-2035		4,196,557	174,067	4,370,624	
Total	\$	11,972,194	\$ 1,570,106	\$ 13,542,300	

2015 Pledged Revenue Bonds

On June 16, 2015, the City issued Pledged Revenue Obligations, Series 2015, in the amount of \$11,360,000, maturing through 2034 in annual principal payments ranging in amounts from \$460,000 to \$3,350,000. Interest is payable semi-annually ranging from 2.00% to 5.00%. The proceeds of the bonds provided financing for ongoing capital projects and were allocated between governmental activities (\$8.1 million) and business-type activities (\$3.2 million).

The City has pledged state shared and excise tax revenues to repay a total of \$11.4 million in revenue bonds issued in 2015. The government activities portion of the bonds are payable from revenues received from state shared and excise tax revenues. The business-type activities portion of the bonds are payable from net revenues received from the City Water System.

The bonds are payable through 2034. The total principal and interest remaining to be paid on the governmental portion of the bonds is \$9.7 million and the total principal and interest remaining to be paid on the business type portion of the bonds is \$3.9 million. The 2015 bonds require that the City maintain a 2.0 times coverage ratio of limited sales tax, inclusive of excise tax revenues and state shared revenues, all within and for the most recently completed fiscal year, to current year debt service payments. The City has met its coverage requirements.

The annual debt service requirements are as follows:

Year Ending					
June 30,		Principal	Interest	Total	
2021	\$	138,517	\$ 121,930	\$ 260,447	
2022		144,229	117,357	261,586	
2023		148,512	113,327	261,839	
2024		152,797	107,279	260,076	
2025		159,936	99,460	259,396	
2026-2030		929,629	365,531	1,295,160	
2031-2035		1,170,956	121,994	1,292,950	
Total	\$	2,844,576	\$ 1,046,878	\$ 3,891,454	

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 8 – Compensated Absences

The City's liability for vested and unpaid compensated absences (accrued vacation and sick leave) has been accrued and amounts to \$1,525,381 at June 30, 2020. Summary of changes in compensated absences for the year ended June 30, 2020 is as follows:

	Classification					
	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020	Due within One Year	Due in More Than One Year
Compensated absences:						
Governmental Activities	\$ 1,357,951	\$ 860,887	\$ (863,978)	\$ 1,354,860	\$ 880,333	\$ 474,527
Business-Type Activities	162,029	128,001	(119,509)	170,521	53,076	117,445
Total compensated absences	\$ 1,519,980	\$ 988,888	\$ (983,487)	\$ 1,525,381	\$ 933,409	\$ 591,972

For the Governmental Activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the City joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The 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 joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

The City joined the Arizona Municipal Workers' Compensation Pool (Pool) together with other governments in the state for risks of loss related to workers' compensation claims. The Pool is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City is responsible for paying a premium, based on an experience rating formula that allocates pool expenditures and liabilities among members.

The City continues to carry commercial airport insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits

A. Summary – Pension and OPEB

Deferred Outflows of Resources

	Governmental Activities	Business-Type Activities	Total
Pension-related deferred outflows of resources:			
Pension contributions made after measurement date:			
ASRS	\$ 771,186	\$ 195,644	\$ 966,830
PSPRS - Police Plan - Tier 1 & 2	878,499	-	878,499
PSPRS - Fire Plan - Tier 1 & 2	392,866	-	392,866
PSPRS - Police Plan - Tier 3	4,933	-	4,933
PSPRS - Fire Plan - Tier 3	28,740	-	28,740
Total pension contributions made after measurement date	<u>2,076,224</u>	<u>195,644</u>	<u>2,271,868</u>
Projected earnings on pension plan investments in excess of actual earnings:			
PSPRS - Police Plan - Tier 1 & 2	65,405	-	65,405
PSPRS - Fire Plan - Tier 1 & 2	84,968	-	84,968
Total projected earnings on pension plan investments in excess of actual earnings	<u>150,373</u>	<u>-</u>	<u>150,373</u>
Change in assumptions:			
ASRS	38,553	9,780	48,333
PSPRS - Police Plan - Tier 1 & 2	1,009,963	-	1,009,963
PSPRS - Fire Plan - Tier 1 & 2	775,762	-	775,762
PSPRS - Police Plan - Tier 3	185	-	185
PSPRS - Fire Plan - Tier 3	206	-	206
Total change in assumption	<u>1,824,669</u>	<u>9,780</u>	<u>1,834,449</u>
Difference between expected and actual experience			
ASRS	164,764	41,800	206,564
PSPRS - Police Plan - Tier 1 & 2	561,359	-	561,359
PSPRS - Fire Plan - Tier 1 & 2	40,200	-	40,200
PSPRS - Police Plan - Tier 3	7,450	-	7,450
PSPRS - Fire Plan - Tier 3	8,302	-	8,302
Total difference between expected and actual experience	<u>782,075</u>	<u>41,800</u>	<u>823,875</u>
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS	37,741	9,574	47,315
PSPRS - Police Plan - Tier 3	3,603	-	3,603
Total change in proportion and differences between employer contributions and proportionate share of contributions	<u>41,344</u>	<u>9,574</u>	<u>50,918</u>
Total pension-related deferred outflows of resources			
ASRS	1,012,244	256,798	1,269,042
PSPRS - Police Plan - Tier 1 & 2	2,515,226	-	2,515,226
PSPRS - Fire Plan - Tier 1 & 2	1,293,796	-	1,293,796
PSPRS - Police Plan - Tier 3	16,171	-	16,171
PSPRS - Fire Plan - Tier 3	37,248	-	37,248
Total pension-related deferred outflows of resources	<u>\$ 4,874,685</u>	<u>\$ 256,798</u>	<u>\$ 5,131,483</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Deferred Outflows of Resources (Continued)

	Governmental Activities	Business-Type Activities	Total
OPEB-related deferred outflows of resources:			
OPEB contributions made after measurement date:			
ASRS - Health Benefit Supplement Plan	\$ 25,540	\$ 6,479	\$ 32,019
ASRS - Long-Term Disability Plan	11,272	2,859	14,131
PSPRS - Police Plan - Tier 1 & 2	6,146	-	6,146
PSPRS - Fire Plan - Tier 1 & 2	3,179	-	3,179
PSPRS - Police Plan - Tier 3	106	-	106
PSPRS - Fire Plan - Tier 3	616	-	616
Total OPEB contributions made after measurement date	<u>46,859</u>	<u>9,338</u>	<u>56,197</u>
Projected earnings on OPEB plan investments in excess of actual earnings:			
PSPRS - Police Plan - Tier 1 & 2	1,198	-	1,198
PSPRS - Fire Plan - Tier 1 & 2	<u>719</u>	<u>-</u>	<u>719</u>
Total projected earnings on OPEB plan investments in excess of actual earnings	<u>1,917</u>	<u>-</u>	<u>1,917</u>
Change in assumptions:			
ASRS - Health Benefit Supplement Plan	34,528	8,760	43,288
ASRS - Long-Term Disability Plan	6,155	1,562	7,717
PSPRS - Police Plan - Tier 1 & 2	4,990	-	4,990
PSPRS - Fire Plan - Tier 1 & 2	2,056	-	2,056
Total change in assumption	<u>47,729</u>	<u>10,322</u>	<u>58,051</u>
Difference between expected and actual experience			
ASRS - Long-Term Disability Plan	4,862	1,233	6,095
PSPRS - Fire Plan - Tier 1 & 2	3,511	-	3,511
PSPRS - Police Plan - Tier 3	66	-	66
PSPRS - Fire Plan - Tier 3	<u>129</u>	<u>-</u>	<u>129</u>
Total difference between expected and actual experience	<u>8,568</u>	<u>1,233</u>	<u>9,801</u>
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS - Health Benefit Supplement Plan	7	2	9
ASRS - Long-Term Disability Plan	146	37	183
PSPRS - Police Plan - Tier 3	<u>109</u>	<u>-</u>	<u>109</u>
Total change in proportion and differences between employer contributions and proportionate share of contributions	<u>262</u>	<u>39</u>	<u>301</u>
Total OPEB-related deferred outflows of resources			
ASRS - Health Benefit Supplement Plan	60,075	15,241	75,316
ASRS - Long-Term Disability Plan	22,435	5,691	28,126
PSPRS - Police Plan - Tier 1 & 2	12,334	-	12,334
PSPRS - Fire Plan - Tier 1 & 2	9,465	-	9,465
PSPRS - Police Plan - Tier 3	281	-	281
PSPRS - Fire Plan - Tier 3	<u>745</u>	<u>-</u>	<u>745</u>
Total OPEB-related deferred outflows of resources	<u>\$ 105,335</u>	<u>\$ 20,932</u>	<u>\$ 126,267</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Pension/OPEB Assets and Liabilities

	Governmental Activities	Business-Type Activities	Total
Net Pension asset			
PSPRS - Police Plan - Tier 3	\$ 3,128	\$ -	\$ 3,128
PSPRS - Fire Plan - Tier 3	3,486	-	3,486
Total net pension liability	<u><u>\$ 6,614</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,614</u></u>
Net Pension liability			
ASRS	\$ 9,120,501	\$ 2,313,803	\$ 11,434,304
PSPRS - Police Plan - Tier 1 & 2	11,362,279	-	11,362,279
PSPRS - Fire Plan - Tier 1 & 2	2,937,503	-	2,937,503
Total net pension liability	<u><u>\$ 23,420,283</u></u>	<u><u>\$ 2,313,803</u></u>	<u><u>\$ 25,734,086</u></u>
Net OPEB asset			
ASRS - Health Benefit Supplement Plan	\$ 17,558	\$ 4,454	\$ 22,012
PSPRS - Police Plan - Tier 1 & 2	114,842	-	114,842
PSPRS - Police Plan - Tier 3	281	-	281
PSPRS - Fire Plan - Tier 3	549	-	549
Total Net OPEB asset	<u><u>\$ 133,230</u></u>	<u><u>\$ 4,454</u></u>	<u><u>\$ 137,684</u></u>
Net OPEB liability			
ASRS - Long-Term Disability Plan	\$ 41,149	\$ 10,439	\$ 51,588
PSPRS - Fire Plan - Tier 1 & 2	38,065	-	38,065
Total Net OPEB liability	<u><u>\$ 79,214</u></u>	<u><u>\$ 10,439</u></u>	<u><u>\$ 89,653</u></u>

Deferred Inflows of Resources

	Governmental Activities	Business-Type Activities	Total
Pension-related deferred inflows of resources:			
Projected earnings on pension plan investments in excess of actual earnings:			
ASRS	\$ 204,998	\$ 52,006	\$ 257,004
PSPRS - Police Plan - Tier 3	96	-	96
PSPRS - Fire Plan - Tier 3	107	-	107
Total projected earnings on pension plan investments in excess of actual earnings	<u><u>205,201</u></u>	<u><u>52,006</u></u>	<u><u>257,207</u></u>
Change in assumptions:			
ASRS	363,196	92,140	455,336
Total change in assumption	<u><u>363,196</u></u>	<u><u>92,140</u></u>	<u><u>455,336</u></u>
Difference between expected and actual experience			
ASRS	1,715	435	2,150
PSPRS - Police Plan - Tier 1 & 2	4,627	-	4,627
PSPRS - Fire Plan - Tier 1 & 2	546,835	-	546,835
Total difference between expected and actual experience	<u><u>553,177</u></u>	<u><u>435</u></u>	<u><u>553,612</u></u>
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS	148,922	37,781	186,703
PSPRS - Fire Plan - Tier 3	2,820	-	2,820
Total change in proportion and differences between employer contributions and proportionate share of contributions	<u><u>151,742</u></u>	<u><u>37,781</u></u>	<u><u>189,523</u></u>
Total pension-related deferred inflows of resources			
ASRS	718,831	182,362	901,193
PSPRS - Police Plan - Tier 1 & 2	4,627	-	4,627
PSPRS - Fire Plan - Tier 1 & 2	546,835	-	546,835
PSPRS - Police Plan - Tier 3	96	-	96
PSPRS - Fire Plan - Tier 3	2,927	-	2,927
Total pension-related deferred inflows of resources	<u><u>\$ 1,273,316</u></u>	<u><u>\$ 182,362</u></u>	<u><u>\$ 1,455,678</u></u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Deferred Inflows of Resources

	Governmental Activities	Business-Type Activities	Total
OPEB-related deferred inflows of resources:			
Projected earnings on pension plan investments in excess of actual earnings:			
ASRS - Health Benefit Supplement Plan	\$ 22,833	\$ 5,792	\$ 28,625
ASRS - Long-Term Disability Plan	877	223	1,100
PSPRS - Police Plan - Tier 3	6	-	6
PSPRS - Fire Plan - Tier 3	11	-	11
	<hr/>	<hr/>	<hr/>
Total projected earnings on pension plan investments in excess of actual earnings	<hr/>	<hr/>	<hr/>
Change in assumptions:			
PSPRS - Police Plan - Tier 1 & 2	7,269	-	7,269
PSPRS - Fire Plan - Tier 1 & 2	3,069	-	3,069
PSPRS - Police Plan - Tier 3	1	-	1
PSPRS - Fire Plan - Tier 3	1	-	1
	<hr/>	<hr/>	<hr/>
Total change in assumption	<hr/>	<hr/>	<hr/>
Difference between expected and actual experience			
ASRS - Health Benefit Supplement Plan	20,988	5,324	26,312
PSPRS - Police Plan - Tier 1 & 2	75,880	-	75,880
PSPRS - Fire Plan - Tier 1 & 2	57,882	-	57,882
PSPRS - Police Plan - Tier 3	47	-	47
PSPRS - Fire Plan - Tier 3	91	-	91
	<hr/>	<hr/>	<hr/>
Total difference between expected and actual experience	<hr/>	<hr/>	<hr/>
Change in proportion and differences between employer contributions and proportionate share of contributions			
ASRS - Health Benefit Supplement Plan	42	11	53
ASRS - Long-Term Disability Plan	468	119	587
PSPRS - Fire Plan - Tier 3	129	-	129
	<hr/>	<hr/>	<hr/>
Total change in proportion and differences between employer contributions and proportionate share of contributions	<hr/>	<hr/>	<hr/>
Total OPEB-related deferred inflows of resources			
ASRS - Health Benefit Supplement Plan	43,863	11,127	54,990
ASRS - Long-Term Disability Plan	1,345	342	1,687
PSPRS - Police Plan - Tier 1 & 2	83,149	-	83,149
PSPRS - Fire Plan - Tier 1 & 2	60,951	-	60,951
PSPRS - Police Plan - Tier 3	54	-	54
PSPRS - Fire Plan - Tier 3	232	-	232
	<hr/>	<hr/>	<hr/>
Total OPEB-related deferred inflows of resources	<hr/>	<hr/>	<hr/>

Pension/OPEB Expenses

	Governmental Activities	Business-Type Activities	Total
Pension expenses:			
ASRS	\$ 946,787	\$ 240,193	\$ 1,186,980
PSPRS - Police Plan - Tier 1 & 2	1,792,486	-	1,792,486
PSPRS - Fire Plan - Tier 1 & 2	1,455,140	-	1,455,140
PSPRS - Police Plan - Tier 3	935	-	935
PSPRS - Fire Plan - Tier 3	516	-	516
	<hr/>	<hr/>	<hr/>
Total net pension expenses	<hr/>	<hr/>	<hr/>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

A. Summary – Pension and OPEB (Continued)

Pension/OPEB Expenses (Continued)

OPEB expenses/(income):	Governmental Activities	Business-Type Activities	Total
ASRS - Health Benefit Supplement Plan	\$ 22,010	\$ 5,584	\$ 27,594
ASRS - Long-Term Disability Plan	13,265	3,365	16,630
PSPRS - Police Plan - Tier 1 & 2	(13,903)	-	(13,903)
PSPRS - Fire Plan - Tier 1 & 2	5,064	-	5,064
PSPRS - Police Plan - Tier 3	7	-	7
PSPRS - Fire Plan - Tier 3	(7)	-	(7)
Total net OPEB expenses	\$ 26,436	\$ 8,949	\$ 35,385

B. Arizona State Retirement System (“ASRS”) Plans

Plan Description

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

Benefits Provided

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

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

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System (“ASRS”) Plans (Continued)

Benefits Provided (Continued)

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

Health insurance premium benefits are available to retired or disabled members with 5 years of credited service. The benefits are payable only with respect to allowable health insurance premiums for which the member is responsible. For members with 10 or more years of service, benefits range from \$150 per month to \$260 per month depending on the age of the member and dependents. For members with 5 to 9 years of service, the benefits are the same dollar amounts as above multiplied by a vesting fraction based on completed years of service.

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

Employees Covered

At June 30, 2020 the City had 172 active and contributing employees were covered by the benefit terms the Plan. As of the date of the audit report, the City was unable to determine the number of transferred/separated employees not receiving benefits or the number of retired employees receiving benefits.

Contributions

In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 12.11 percent (11.94 percent for retirement and 0.17 percent for long-term disability) of the members’ annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 12.11 percent (11.45 percent for retirement, 0.49 percent for health insurance premium benefit, and 0.17 percent for long-term disability) of the active members’ annual covered payroll. In addition, the City was required by statute to contribute at the actuarially determined rate of 10.41 percent (10.29 percent for retirement, 0.05 percent for health insurance premium benefit, and 0.07 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The City’s contributions to the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2020, were:

	Contributions - employer
Pension Plan	\$ 966,830
Health Benefit Supplement Plan	32,019
Long-Term Disability Plan	14,131
Total	\$ 1,012,980

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System (“ASRS”) Plans (Continued)

Contributions (Continued)

During fiscal year 2020, the City paid for ASRS pension and OPEB contributions as follows: 80 percent from the Governmental Funds, 14 percent from the Water Fund, and 6 percent from the Wastewater Fund.

Assets, Liabilities, Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans

At June 30, 2020, the City’s reported proportionate share of pension and OPEB liability/(asset)’s for the City was:

	Net pension/OPEB (asset) liability
Pension Plan	\$ 11,434,304
Health Benefit Supplement Plan	(22,012)
Long-Term Disability Plan	51,588
Total	\$ 11,463,880

The net asset and net liabilities were measured as of June 30, 2019. The total liability used to calculate the net asset or net liability was determined using update procedures to roll forward the total liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019. The City’s proportion of the net asset or net liability was based on the City’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2019. The City’s proportions measured as of June 30, 2019, and the change from its proportions measured as of June 30, 2018, were:

	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
Proportion June 30, 2017	0.0804900%	0.0815600%	0.0806600%
Proportion June 30, 2018	0.0785800%	0.0796500%	0.0791900%
Change - Increase (Decrease)	-0.0019100%	-0.0019100%	-0.0014700%

As of June 30, 2020, the City reported net pension and OPEB liability/(asset) for its proportionate shares of the net pension and OPEB liability/(asset) of the Arizona State Retirement System Plans as follows:

	Plan's Net Pension and OPEB Liability/(Asset)		
	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
Balance at: 6/30/18 (Valuation date)	\$ 11,225,522	\$ (29,369)	\$ 42,145
Balance at: 6/30/19 (Measurement date)	11,434,304	(22,012)	51,588
Net Changes during 2018-2019	<u>(208,782)</u>	<u>(7,357)</u>	<u>(9,443)</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System (“ASRS”) Plans (Continued)

Assets, Liabilities, Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans (Continued)

The City recognized the following pension/OPEB expenses for the pension, health insurance premium benefit, and long-term disability plans for the year ended June 30, 2020:

Pension/OPEB expenses	
Pension Plan	\$ 1,186,980
Health Benefit Supplement Plan	27,594
Long-Term Disability Plan	<u>16,630</u>
Total	<u><u>\$ 1,231,204</u></u>

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

	Pension Plan		Health Benefit Supplement Plan		Long-Term Disability Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Contributions made subsequent to measurement date	\$ 966,830	\$ -	\$ 32,019	\$ -	\$ 14,131	\$ -
Difference between projected and actual earning on pension plan investments	- -	(257,004)	- -	(28,625)	- -	(1,100)
Changes in assumptions	48,333	(455,336)	43,288	- -	7,717	- -
Difference between actual and expected experience	206,564	(2,150)	- -	(26,312)	6,095	- -
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,315	(186,703)	9	(53)	183	(587)
Total	<u><u>\$ 1,269,042</u></u>	<u><u>\$ (901,193)</u></u>	<u><u>\$ 75,316</u></u>	<u><u>\$ (54,990)</u></u>	<u><u>\$ 28,126</u></u>	<u><u>\$ (1,687)</u></u>

The amounts reported as deferred outflows of resources related to ASRS pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net asset or a reduction of the net liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources		
	Pension Plan	Health Benefit Supplement Plan	Long-Term Disability Plan
2021	\$ (225,419)	\$ (9,538)	\$ 1,197
2022	(393,039)	(9,538)	1,198
2023	(49,356)	2,667	2,272
2024	68,833	5,338	2,469
2025	- -	(622)	2,060
Thereafter	- -	- -	3,112
	<u><u>\$ (598,981)</u></u>	<u><u>\$ (11,693)</u></u>	<u><u>\$ 12,308</u></u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System (“ASRS”) Plans (Continued)

Actuarial Methods and Assumptions Used to Determine Total Pension and OPEB Liability

For the measurement period ended June 30, 2019 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2018 total pension liability. Both the June 30, 2018 and the June 30, 2019 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement No. 68 ⁷
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial Assumptions:	
Investment rate of return	7.5%
Projected salary increases	2.7–7.2% for pensions/not applicable for OPEB
Inflation	2.3%
Permanent benefit increase	Included for pensions/not applicable for OPEB
Mortality rates	2017 SRA Scale U-MP for pensions and health insurance premium benefit
Recovery rates	2012 GLDT for long-term disability
Healthcare cost trend rate	Not applicable

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

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

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity	50.00%	6.09%	3.05%
Credit	20.00%	5.36%	1.07%
Interest Rate Sensitive Bonds	10.00%	1.62%	0.16%
Real Estate	20.00%	5.85%	1.17%
Total	100%		5.45%

Discount Rate

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

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

B. Arizona State Retirement System (“ASRS”) Plans (Continued)

Discount Rate (Continued)

Sensitivity of the County’s proportionate share of the ASRS net pension/OPEB (asset) liability to changes in the discount rate—The following table presents the County’s proportionate share of the net pension/OPEB (asset) liability calculated using the discount rate of 7.5 percent, as well as what the County’s proportionate share of the net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	Aggregate Net Pension and OPEB Liability/(Asset)		
	Discount Rate - 1% (6.50%)	Current Discount Rate (7.50%)	Discount Rate + 1% (8.50%)
Pension Plan	\$ 16,273,664	\$ 11,434,304	\$ 7,389,845
Health Benefit Supplement Plan	\$ 111,499	\$ (22,012)	\$ (135,769)
Long-Term Disability Plan	\$ 57,094	\$ 51,588	\$ 46,249
Total	\$ 16,442,257	\$ 11,463,880	\$ 7,300,325

Pension Plan Fiduciary Net Position

Detailed information about each pension plan’s fiduciary net position is available in the separately issued report at www.azasrs.gov.

Payable to the Pension Plan

At June 30, 2020, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2020.

C. Arizona Public Safety Retirement System (“PSPRS”) Plans

Plan Description

The City’s public safety employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participate in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans and agent and cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plans. A 9-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plans, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plans (PSPRS Tier 3 Risk Pool).

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

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Benefits Provided

The PSPRS provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefits terms. Certain retirement and disability benefits are calculated on the basis of age, average monthly compensation, and service credit as follows. See the publicly available PSPRS financial report for additional benefits information.

	Retirement Initial Membership Date:		
	Before January 1, 2012	On or After January 1, 2012 and Before July 1, 2017	On or After July 1, 2017
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5	15 years of credited service, age 52.5* 15 or more years of service, age 55
Final average salary is based on	Highest 36 consecutive months of last 20 years 50% less 2.0% for each year of credited service less than 20 years or plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	Highest 60 consecutive months of last 20 years	Highest 60 consecutive months of last 15 years
Normal retirement		1.5% to 2.5% per year of credited service, not to exceed 80%	
Accidental disability retirement		50% or normal retirement, whichever is greater	
Catastrophic disability retirement		90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement		Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		50% or normal retirement, whichever is greater	
Retired members		80% to 100% of retired member’s pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job		

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

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

Employees Covered

At June 30, 2019, the following employees were covered by the benefit terms for each Plan:

	Police Plan (Tier 1 & 2)		Fire Plan (Tier 1 & 2)		Police Plan (Tier 3)		Fire Plan (Tier 3)	
	Pension	Health	Pension	Health	Pension	Health	Pension	Health
Active employees	25	25	23	23	1	1	2	2
Transferred and terminated employees	6	1	1	1	1	1	0	0
Retired employees and beneficiaries	19	19	5	5	0	0	0	0
Total	50	45	29	29	2	2	2	2

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Contributions

State statutes establish the pension contribution requirements for active PSPRS employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2020, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	Police Plan (Tier 1 & 2)	Fire Plan (Tier 1 & 2)	Police Plan (Tier 3)	Fire Plan (Tier 3)
	(Tier 1) 7.65%			
Active members - pension		(Tier 2 - hired after 7/2011) 11.65%		10.51%
City of Cottonwood, Arizona:				
Pension	48.60%	25.24%	44.98%	20.18%
Health Insurance	0.34%	0.69%	1.51%	1.51%

Also statutes required the City was required to contribute at the actuarially determined rate for Police Tier 1 & 2, Police Tier 3, Fire Tier 1 & 2, Fire Tier 3 of 48.94%, 46.49%, 25.93%, and 21.69%, respectively, of annual covered payroll for Police Plan and Fire Plan retired members, respectively who worked in positions that would typically be filled by an employee who contributes to the PSPRS.

For the year ended June 30, 2020, the City’s contributions made for each Plan was as follows:

	Police Plan (Tier 1 & 2)		Fire Plan (Tier 1 & 2)		Police Plan (Tier 3)		Fire Plan (Tier 3)	
	Pension	Health	Pension	Health	Pension	Health	Pension	Health
Contributions - employer	\$ 878,499	\$ 6,146	\$ 392,866	\$ 3,179	\$ 4,933	\$ 106	\$ 28,740	\$ 616

During fiscal year 2020, the City paid for the total PSPRS pension and OPEB contributions from the general fund.

Net Pension and OPEB Liability/(Asset)

The City’s net assets and net liabilities were measured as of June 30, 2019, and the total liability used to calculate the net asset or liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

The City’s proportions measured as of June 30, 2019, for the PSPRS Tier 3 Police and Fire Pension/OPEB plans, were:

	Police Pension Plan (Tier 3)	Police OPEB Plan (Tier 3)	Fire Pension Plan (Tier 3)	Fire OPEB Plan (Tier 3)
Proportion June 30, 2018	0.2178110%	0.19159%	0.2427230%	0.3735360%

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Actuarial Assumptions

The total pension and liabilities/(assets) in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal in accordance with the requirement of GASB Statement
Actuarial Assumptions:	
Discount Rate	7.30%
Inflation	2.50%; No explicit price inflation assumption
Salary Increases	4.00% to 8.00% including inflation
Investment Rate of Return	7.30%, net of investment and administrative expenses
Mortality Rate Table	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).
Post Retirement Benefit Increase	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of

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

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

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return ¹
Short Term Inv.	2.00%	0.01%
Risk Parity	4.00%	0.16%
Fixed Income	5.00%	0.15%
Real Assets	9.00%	0.61%
Real Estate	10.00%	0.45%
Private Equity	12.00%	1.00%
GTS	12.00%	0.48%
Non-U.S. Equity	14.00%	0.70%
U.S. Equity	16.00%	0.76%
Private Credit	16.00%	0.86%
	100.00%	

¹An expected inflation of 2.75% used for this period

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Discount Rate

At June 30, 2020, the discount rate used to measure the PSPRS and CORP total pension/OPEB liabilities was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension/OPEB liability.

Changes in the Net Pension and OPEB Liability/(Asset)

The following table shows the changes in net pension liability recognized over the measurement period:

Police Plan - 066						
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018 (Valuation Date)	\$ 17,613,014	\$ 7,279,466	\$ 10,333,548	\$ 293,507	\$ 334,869	\$ (41,362)
Changes in the year:						
Service cost	414,083	-	414,083	6,658	-	6,658
Interest on the total pension liabilities	1,304,328	-	1,304,328	21,966	-	21,966
Changes of Benefit Terms	-	-	-	-	-	-
Differences between expected and actual experience	301,392	-	301,392	(77,946)	-	(77,946)
Changes of Assumptions	665,480	-	665,480	5,987	-	5,987
Benefit payments, including refunds of members contributions	(802,098)	(802,098)	-	(6,661)	(6,661)	-
Contributions - employer	-	1,072,824	(1,072,824)	-	6,629	(6,629)
Contributions - employee	-	166,941	(166,941)	-	-	-
Net investment income	-	430,937	(430,937)	-	18,162	(18,162)
Administrative expenses	-	(8,482)	8,482	-	(314)	314
Other changes	-	(5,668)	5,668	-	5,668	(5,668)
Net changes	<u>1,883,185</u>	<u>854,454</u>	<u>1,028,731</u>	<u>(49,996)</u>	<u>23,484</u>	<u>(73,480)</u>
Balance at June 30, 2019 (Measurement Date)	<u>\$ 19,496,199</u>	<u>\$ 8,133,920</u>	<u>\$ 11,362,279</u>	<u>\$ 243,511</u>	<u>\$ 358,353</u>	<u>\$ (114,842)</u>

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Changes in the Net Pension and OPEB Liability/(Asset) (Continued)

Fire Plan - 102						
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2018 (Valuation Date)	\$ 9,547,020	\$ 6,832,123	\$ 2,714,897	\$ 246,298	\$ 163,086	\$ 83,212
Changes in the year:						
Service cost	383,528	-	383,528	6,215	-	6,215
Interest on the total pension liabilities	727,986	-	727,986	18,429	-	18,429
Changes of Benefit Terms	-	-	-	-	-	-
Differences between expected and actual experience	(70,820)	-	(70,820)	(45,117)	-	(45,117)
Changes of Assumptions	187,461	-	187,461	2,311	-	2,311
Benefit payments, including refunds of members contributions	(185,811)	(185,811)	-	(6,957)	(6,957)	-
Contributions - employer	-	487,369	(487,369)	-	12,994	(12,994)
Contributions - employee	-	141,988	(141,988)	-	-	-
Net investment income	-	389,112	(389,112)	-	8,985	(8,985)
Administrative expenses	-	(7,759)	7,759	-	(155)	155
Other changes	-	(5,161)	5,161	-	5,161	(5,161)
Net changes	1,042,344	819,738	222,606	(25,119)	20,028	(45,147)
Balance at June 30, 2019 (Measurement Date)	<u>\$ 10,589,364</u>	<u>\$ 7,651,861</u>	<u>\$ 2,937,503</u>	<u>\$ 221,179</u>	<u>\$ 183,114</u>	<u>\$ 38,065</u>

Sensitivity of the Net Pension and OPEB Liability/(Asset) to Changes in the Discount Rate

Sensitivity of the County’s net pension/OPEB (asset) liability to changes in the discount rate—The following table presents the County’s net pension/OPEB (assets) liabilities calculated using the discount rate of 7.3 percent, as well as what the County’s net pension/OPEB (asset) liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	Plan's Aggregate Net Pension/OPEB (Asset) Liability		
	Discount Rate - 1% (6.30%)	Current Discount Rate (7.30%)	Discount Rate + 1% (8.30%)
Police Pension Plan (Tier 1 & 2)	\$ 14,250,530	\$ 11,362,279	\$ 9,041,457
Police OPEB Plan (Tier 1 & 2)	\$ (82,298)	\$ (114,842)	\$ (141,845)
Fire Pension Plan (Tier 1 & 2)	\$ 4,584,450	\$ 2,937,503	\$ 1,608,066
Fire OPEB Plan (Tier 1 & 2)	\$ 65,394	\$ 38,065	\$ 15,115
Aggregate Total	\$ 18,818,076	\$ 14,223,005	\$ 10,522,793

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Sensitivity of the Net Pension and OPEB Liability/(Asset) to Changes in the Discount Rate (Continued)

	Plan's Aggregate Proportionate Share of Net Pension/OPEB (Asset) Liability		
	Discount Rate - 1% (6.40%)	Current Discount Rate (7.40%)	Discount Rate + 1% (8.40%)
Police Pension Plan (Tier 3)	\$ (1,743)	\$ (3,128)	\$ 6,739
Police OPEB Plan (Tier 3)	\$ (218)	\$ (281)	\$ (331)
Fire Pension Plan (Tier 3)	\$ (1,942)	\$ (3,486)	\$ 7,510
Fire OPEB Plan (Tier 3)	\$ (425)	\$ (549)	\$ (646)
Aggregate Total	\$ (4,328)	\$ (7,444)	\$ 13,272

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued PSPRS financial reports.

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans

For the year ended June 30, 2020, the City recognized the following pension and OPEB expense:

Pension/OPEB expense/(income)		
Pension Plan - Police (Tier 1 & 2)	\$ 1,792,486	
Pension Plan - Fire (Tier 1 & 2)		1,455,140
Pension Plan - Police (Tier 3)		935
Pension Plan - Fire (Tier 3)		516
OPEB Plan - Police (Tier 1 & 2)		(13,903)
OPEB Plan - Fire (Tier 1 & 2)		5,064
OPEB Plan - Police (Tier 3)		7
OPEB Plan - Fire (Tier 3)		(7)
Total	\$ 3,240,238	

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans (Continued)

At June 30, 2020 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Police Plan (Tier 1 & 2)			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date	\$ 878,499	\$ -	\$ 6,146	\$ -
Difference between projected and actual earning on pension plan investments	65,405	-	1,198	-
Changes in assumptions	1,009,963	-	4,990	(7,269)
Difference between actual and expected experience	561,359	(4,627)	-	(75,880)
Total	\$ 2,515,226	\$ (4,627)	\$ 12,334	\$ (83,149)

	Fire Plan (Tier 1 & 2)			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date	\$ 392,866	\$ -	\$ 3,179	\$ -
Difference between projected and actual earning on pension plan investments	84,968	-	719	-
Changes in assumptions	775,762	-	2,056	(3,069)
Difference between actual and expected experience	40,200	(546,835)	3,511	(57,882)
Total	\$ 1,293,796	\$ (546,835)	\$ 9,465	\$ (60,951)

	Police Plan (Tier 3)			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date	\$ 4,933	\$ -	\$ 106	\$ -
Difference between projected and actual earning on pension plan investments	-	(96)	-	(6)
Changes in assumptions	185	-	-	(1)
Difference between actual and expected experience	7,450	-	66	(47)
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,603	-	109	-
Total	\$ 16,171	\$ (96)	\$ 281	\$ (54)

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

C. Arizona Public Safety Retirement System (“PSPRS”) Plans (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension/OPEB Plans (Continued)

	Fire Plan (Tier 3)			
	Pension Plan		OPEB Plan	
	Deferred outflows of Resources	Deferred inflows of Resources	Deferred outflows of Resources	Deferred inflows of Resources
Pension contributions made subsequent to measurement date	\$ 28,740	\$ -	\$ 616	\$ -
Difference between projected and actual earning on pension plan investments	- -	(107)	- -	(11)
Changes in assumptions	206	- -	- -	(1)
Difference between actual and expected experience	8,302	- -	129	(91)
Changes in proportion and differences between employer contributions and proportionate share of contributions	- -	(2,820)	- -	(129)
Total	<u>\$ 37,248</u>	<u>\$ (2,927)</u>	<u>\$ 745</u>	<u>\$ (232)</u>

The amounts reported as deferred outflows of resources related to pensions and OPEB resulting from City contributions subsequent to the measurement date will be recognized as an increase in the net asset or a reduction of the net liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions and OPEB will be recognized as expenses as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources				
	Police Pension Plan (Tier 1 & 2)	Fire Pension Plan (Tier 1 & 2)	Police OPEB Plan (Tier 1 & 2)	Fire OPEB Plan (Tier 1 & 2)	
2021	\$ 619,558	\$ 93,420	\$ (18,073)	\$ (7,448)	
2022	441,756	21,649	(18,072)	(7,446)	
2023	350,018	72,909	(15,629)	(6,266)	
2024	220,768	69,694	(13,194)	(6,413)	
2025	- -	43,176	(11,993)	(7,073)	
Thereafter	- -	53,247	- -	(20,019)	
	<u>\$ 1,632,100</u>	<u>\$ 354,095</u>	<u>\$ (76,961)</u>	<u>\$ (54,665)</u>	

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources				
	Police Pension Plan (Tier 3)	Police OPEB Plan (Tier 3)	Fire Pension Plan (Tier 3)	Fire OPEB Plan (Tier 3)	
2021	\$ 841	\$ 7	\$ 411	\$ (7)	
2022	841	7	411	(7)	
2023	841	7	411	(7)	
2024	840	7	410	(7)	
2025	864	9	438	(4)	
Thereafter	6,915	84	3,500	(71)	
	<u>\$ 11,142</u>	<u>\$ 121</u>	<u>\$ 5,581</u>	<u>\$ (103)</u>	

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 10 – Pension Plans and Other Postemployment Benefits (Continued)

D. Firefighters' Relief and Pension Fund

The Firefighters' Relief and Pension Fund, known as the Cottonwood Fire Department Alternate Pension/Benefit Plan, 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. According to the plan, a volunteer firefighter who has served twelve (12) months is eligible to participate. Normal retirement is the earlier of age 55 or 20 years of service. The employer contributions vest at twenty-five percent (25 percent) after three (3) years, six percent (6 percent) per year thereafter until the volunteer is 100 percent vested after fifteen (15) years. The monthly retirement benefit cannot exceed \$150, as determined by the Board of Trustees. Such pension, 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 the service without being eligible 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.

Each volunteer must contribute at least 5.0 percent of covered compensation which is matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2020, the City did not contribute to the Fund as there were no participants in the plan.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer 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. A separate, audited GAAP-basis postemployment benefit plan was not available.

Note 11 – Other Required Disclosures

A. Deficit Fund Balance/Net Position

At June 30, 2020, the Governmental Activities Statement of Net Position had an unrestricted net position deficit of \$(11,650,963).

B. Expenditures Exceeding Appropriations

For the year ended June 30, 2020, expenditures exceeded appropriations in the following function(s) of the General Fund:

Function	Excess Expenditures over Appropriations
Debt Service	\$ (225,138)

City of Cottonwood
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2020

Note 12 – Classification of Fund Balances

The City classifies fund balances, as shown on the Balance Sheet – Governmental Funds as of June 30, 2020 as follows:

	Major Funds			Other Governmental Funds	Total
	General Fund	Debt Service Fund			
Nonspendable:					
Inventories	\$ 24,044	\$ -	\$ 13,928	\$ 37,972	
Prepaid items	62,944	16,201	-	-	79,145
Total nonspendable	86,988	16,201	13,928		117,117
Restricted:					
Grants	-	-	11,164	11,164	
Highways and streets	-	-	2,925,973	2,925,973	
Debt service	-	348,011	-	348,011	
Capital Outlay	-	-	842,316	842,316	
Total restricted	-	348,011	3,779,453		4,127,464
Assigned:					
Capital outlay	1,000,000	-	-	-	1,000,000
Total assigned	1,000,000	-	-		1,000,000
Unassigned					
	6,955,514	-	-	-	6,955,514
Total Fund Balances	\$ 8,042,502	\$ 364,212	\$ 3,793,381		\$ 12,200,095

Note 13 – Commitments and Contingencies

A. Litigation

The City is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable; however, City management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

B. Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of non-compliance were disclosed by the audit of the financial statements or Single Audit of the Federal grant programs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, future disallowances of current or prior grant expenditures, if any, would not have a material adverse effect on the financial position of the City.

C. COVID-19 Pandemic

In December 2019, a novel strain of coronavirus has spread around the world resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the City could potentially be adversely affected by this global pandemic. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. However, the related financial impact on the City and the duration cannot be estimated at this time.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

Required Supplementary Information (Unaudited)

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Required Supplementary Information (Unaudited)
Budgetary Information
For the Year Ended June 30, 2020

Note 1 – Budgetary Information

The City maintains budgetary controls in order to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. The City maintains an encumbrance accounting system to provide management with information regarding obligations against appropriations. Budgetary compliance is based on expenditures during the period (GAAP), rather than expenditures and encumbrances (non-GAAP). Because appropriations lapse at June 30, encumbrances outstanding at June 30, 2020 are disclosed in the notes to the financial statements. Appropriations for fiscal year 2020 will provide authority to complete those transactions.

The City is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the "annual appropriated budget."

The City Council may amend the budget by motion during the fiscal year. The City Manager is authorized to transfer budget amounts within any fund during the budget year as long as it does not increase the total budget within the fund. However, any revisions that alter total expenditures of any fund without coinciding revenue increases must be approved by the City Council.

Per state law, expenditures may not legally exceed the expenditure limitation of all fund types as a whole. For management purposes, the City adopts a budget by department for each separate fund and establishes the legal level of local budgetary control at this level. The adopted budget cannot be amended in any way without City Council approval.

Total expenditures are not in excess of the City Council approved Annual Expenditure Limitation adopted with the Budget for fiscal year June 30, 2020, and therefore are properly authorized. The City's total expenditure limit was \$76,016,900.

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America with the following exceptions: 1) Indirect costs charged to other funds are budgeted within the General Fund as revenues rather than reductions of expenditures, and 2) intrafund transfers are budgeted as transfers but are eliminated in the fund financial statements.

Consequently, the following adjustments were necessary to present actual revenues, actual expenditures, transfers in, and transfers out on a budgetary basis in order to provide a meaningful comparison.

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Statement of Revenues, Expenditures and Changes in Fund Balances -				
Governmental Funds	\$ 30,798,615	\$ 26,549,184	\$ 230,361	\$ (230,361)
Indirect cost	<u>1,145,942</u>	<u>1,145,942</u>	<u>-</u>	<u>-</u>
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual -				
General Fund	<u>\$ 31,944,557</u>	<u>\$ 27,695,126</u>	<u>\$ 230,361</u>	<u>\$ (230,361)</u>

City of Cottonwood
Required Supplementary Information (Unaudited) (Continued)
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 15,223,110	\$ 14,598,290	\$ 15,846,525	\$ 1,248,235
Intergovernmental	4,360,365	4,123,520	4,170,676	47,156
Licenses and permits	392,285	286,650	281,099	(5,551)
Fines and forfeitures	172,200	211,290	172,572	(38,718)
Rents and royalties	146,100	130,520	129,751	(769)
Investment income	30,040	46,830	82,712	35,882
Charges for services	2,320,310	1,858,220	1,802,164	(56,056)
Contributions	24,000	29,950	34,050	4,100
Miscellaneous	1,274,950	1,192,110	1,180,456	(11,654)
Total revenues	23,943,360	22,477,380	23,700,005	1,222,625
EXPENDITURES:				
Current:				
General government	6,904,730	6,110,845	6,005,936	104,909
Public safety	10,931,880	10,543,920	10,277,695	266,225
Culture and leisure	4,032,715	3,733,770	3,550,868	182,902
Capital outlay	113,420	164,030	154,909	9,121
Debt service:				
Principal	201,040	200,415	425,553	(225,138)
Interest and fiscal charges, net of amortization of deferred loss on refunding	118,770	129,115	126,026	3,089
Total expenditures	22,302,555	20,882,095	20,540,987	341,108
REVENUES OVER (UNDER) EXPENDITURES	1,640,805	1,595,285	3,159,018	1,563,733
OTHER FINANCING SOURCES (USES):				
Proceeds from debt issuance	-	-	-	-
Sales of property	40,000	107,890	105,649	(2,241)
Transfers In	135,200	108,860	-	(108,860)
Transfers out	(806,995)	(380,110)	(16,627)	363,483
Total other financing sources (uses)	(631,795)	(163,360)	89,022	252,382
Net change in fund balances	\$ 1,009,010	\$ 1,431,925	3,248,040	\$ 1,816,115
FUND BALANCES:				
Beginning of year			4,794,462	
End of year			\$ 8,042,502	

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability
Last Ten Years
For the Year Ended June 30, 2020

Arizona Employees' Retirement System ("ASRS") Pension Plan

Measurement Period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City's Proportion of the Net Pension Liability	0.07858%	0.08049%	0.07980%	0.07865%	0.07549%	0.07042%
City's Proportionate Share of the Net Pension Liability	\$ 11,434,304	\$ 11,225,522	\$ 12,431,284	\$ 12,694,900	\$ 11,759,105	\$ 10,420,105
City's Covered Payroll	\$ 7,827,288	\$ 7,599,309	\$ 7,377,970	\$ 7,163,077	\$ 6,954,444	\$ 6,005,925
City's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	146.08%	147.72%	168.49%	177.23%	169.09%	173.50%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Employees' Retirement System ("ASRS") Health Insurance Premium Benefit

Measurement Period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016 ¹
City's Proportion of the Net OPEB (Asset) Liability	0.07965%	0.08156%	0.08061%	0.08061%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ (22,012)	\$ (29,369)	\$ (43,884)	\$ 23,309
City's Covered Payroll	\$ 7,827,288	\$ 7,599,309	\$ 7,377,970	\$ 7,163,077
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered Payroll	-0.28%	-0.39%	-0.59%	0.33%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	101.62%	102.20%	103.57%	103.57%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Employees' Retirement System ("ASRS") Long-Term Disability

Measurement Period	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016 ¹
City's Proportion of the Net OPEB (Asset) Liability	0.07919%	0.08066%	0.08001%	0.08001%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ 51,588	\$ 42,145	\$ 29,002	\$ 28,753
City's Covered Payroll	\$ 7,827,288	\$ 7,599,309	\$ 7,377,970	\$ 7,163,077
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered Payroll	0.66%	0.55%	0.39%	0.40%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	72.85%	77.83%	84.44%	84.44%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan (Tier 3)

	June 30, 2019	June 30, 2018 ¹
Measurement Period		
City's Proportion of the Net Pension (Asset) Liability	0.21781%	0.47335%
City's Proportionate Share of the Net Pension (Asset) Liability	\$ (3,128)	\$ 933
City's Covered Payroll	\$ 103,355	\$ 100,345
City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of Its Covered Payroll	<u>-3.03%</u>	<u>0.93%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>116.90%</u>	<u>89.24%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which the plan is in effect.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan (Tier 3)

Measurement Period	June 30, 2019	June 30, 2018 ¹
City's Proportion of the Net Pension (Asset) Liability	0.24272%	0.04223%
City's Proportionate Share of the Net Pension (Asset) Liability	\$ (3,486)	\$ 1,923
City's Covered Payroll	<u>\$ 77,897</u>	<u>\$ 75,628</u>
City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of Its Covered Payroll	<u>-4.48%</u>	<u>2.54%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>116.90%</u>	<u>89.24%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which the plan is in effect.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police OPEB Plan (Tier 3)

Measurement Period	June 30, 2019	June 30, 2018 ¹
City's Proportion of the Net OPEB (Asset) Liability	0.19159%	0.47333%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ (281)	\$ (20)
City's Covered Payroll	\$ 103,355	\$ 100,345
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered Payroll	<u>-0.27%</u>	<u>-0.02%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>205.30%</u>	<u>110.51%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which the plan is in effect.

City of Cottonwood
Schedules of the Proportionate Share of the Net Pension/OPEB (Asset) Liability (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan (Tier 3)

	June 30, 2019	June 30, 2018 ¹
Measurement Period		
City's Proportion of the Net OPEB (Asset) Liability	0.37354%	0.04223%
City's Proportionate Share of the Net OPEB (Asset) Liability	\$ (549)	\$ (2)
City's Covered Payroll	\$ 77,897	\$ 75,628
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of Its Covered Payroll	<u>-0.70%</u>	<u>0.00%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total OPEB Liability	<u>205.30%</u>	<u>110.51%</u>

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which the plan is in effect.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB (Asset) Liability and Related Ratios
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan

Total Pension Liability	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Service cost	\$ 414,083	\$ 390,296	\$ 466,156	\$ 377,687	\$ 363,471	\$ 354,387
Interest on total pension liability	1,304,328	1,210,011	1,109,897	1,005,947	943,940	773,831
Changes in assumptions	665,480	-	297,828	604,633	-	1,448,801
Differences between expected and actual experience	301,392	208,299	52,873	358,438	186,411	(74,185)
Changes in benefit terms	-	-	355,721	367,613	-	258,918
Benefit payments, including refunds of employee contributions	(802,098)	(703,893)	(679,447)	(869,625)	(552,428)	(646,187)
Net change in total pension liability	1,883,185	1,104,713	1,603,028	1,844,693	941,394	2,115,565
Total pension liability - beginning	17,613,014	16,508,301	14,905,273	13,060,580	12,119,186	10,003,621
Total pension liability - ending (a)	\$ 19,496,199	\$ 17,613,014	\$ 16,508,301	\$ 14,905,273	\$ 13,060,580	\$ 12,119,186
 Plan fiduciary net position						
Contributions - employer	\$ 1,072,824	\$ 1,384,711	\$ 911,276	\$ 910,441	\$ 601,731	\$ 562,803
Contributions - employee	166,941	171,124	217,925	235,544	227,682	199,451
Investment income (net of administrative expenses)	430,937	487,040	666,184	31,475	167,936	531,085
Benefit payments	(802,098)	(703,893)	(679,447)	(869,625)	(552,428)	(646,187)
Administrative expenses	(8,482)	(8,113)	(6,295)	(4,929)	(4,475)	-
Other	(5,668)	(344,947)	63	(7,369)	(12,483)	(211,221)
Net change in plan fiduciary net position	854,454	985,922	1,109,706	295,537	427,963	435,931
Plan fiduciary net position - beginning	7,279,466	6,293,544	5,183,838	4,888,301	4,460,338	4,024,407
Plan fiduciary net position - ending (b)	\$ 8,133,920	\$ 7,279,466	\$ 6,293,544	\$ 5,183,838	\$ 4,888,301	\$ 4,460,338
 Net pension liability - ending (a)-(b)	\$ 11,362,279	\$ 10,333,548	\$ 10,214,757	\$ 9,721,435	\$ 8,172,279	\$ 7,658,848
 Plan fiduciary net position as a percentage of the total pension liability	41.72%	41.33%	38.12%	34.78%	37.43%	36.80%
Covered payroll	\$ 2,137,279	\$ 2,075,028	\$ 2,014,590	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Net pension liability as a percentage of covered payroll	531.62%	498.00%	507.04%	497.03%	401.59%	400.28%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB (Asset) Liability and Related Ratios
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan

Total Pension Liability	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Service cost	\$ 383,528	\$ 368,524	\$ 384,392	\$ 310,941	\$ 311,663	\$ 303,278
Interest on total pension liability	727,986	666,698	596,244	511,500	477,670	392,718
Changes in assumptions	187,461	-	133,242	326,086	-	379,456
Differences between expected and actual experience	(70,820)	(223,813)	(178,835)	(118,267)	(191,635)	84,144
Changes in benefit terms	-	-	309,205	556,936	-	45,070
Benefit payments, including refunds of employee contributions	(185,811)	(179,128)	(174,457)	(205,399)	(127,375)	(125,956)
Net change in total pension liability	1,042,344	632,281	1,069,791	1,381,797	470,323	1,078,710
Total pension liability - beginning	9,547,020	8,914,739	7,844,948	6,463,151	5,992,828	4,914,118
Total pension liability - ending (a)	\$ 10,589,364	\$ 9,547,020	\$ 8,914,739	\$ 7,844,948	\$ 6,463,151	\$ 5,992,828
 Plan fiduciary net position						
Contributions - employer	\$ 487,369	\$ 704,801	\$ 355,006	\$ 344,528	\$ 247,248	\$ 261,908
Contributions - employee	141,988	145,107	183,748	195,245	187,916	171,178
Investment income (net of administrative expenses)	389,112	446,127	651,916	29,391	167,246	505,572
Benefit payments	(185,811)	(179,128)	(174,457)	(205,399)	(127,375)	(125,956)
Administrative expenses	(7,759)	(7,490)	(6,168)	(4,629)	(4,470)	-
Other	(5,161)	(383,143)	64	(88,820)	(78,930)	(22,265)
Net change in plan fiduciary net position	819,738	726,274	1,010,109	270,316	391,635	790,437
Plan fiduciary net position - beginning	6,832,123	6,105,849	5,095,740	4,825,424	4,433,789	3,643,352
Plan fiduciary net position - ending (b)	\$ 7,651,861	\$ 6,832,123	\$ 6,105,849	\$ 5,095,740	\$ 4,825,424	\$ 4,433,789
 Net pension liability - ending (a)-(b)	\$ 2,937,503	\$ 2,714,897	\$ 2,808,890	\$ 2,749,208	\$ 1,637,727	\$ 1,559,039
 Plan fiduciary net position as a percentage of the total pension liability	72.26%	71.56%	68.49%	64.96%	74.66%	73.98%
Covered payroll	\$ 1,987,176	\$ 1,929,297	\$ 1,873,104	\$ 1,818,548	\$ 1,604,216	\$ 1,689,214
Net pension liability as a percentage of covered payroll	147.82%	140.72%	149.96%	166.38%	102.09%	92.29%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB (Asset) Liability and Related Ratios
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police OPEB Plan

	2018-19	2017-18	2016-17¹
Total OPEB Liability			
Service cost	\$ 6,658	\$ 6,462	\$ 8,171
Interest on total OPEB liability	21,966	21,101	21,172
Changes in assumptions	5,987	-	253
Differences between expected and actual experience	(77,946)	(12,591)	(5,210)
Changes in benefit terms	-	-	(13,866)
Benefit payments, including refunds of employee contributions	(6,661)	(6,760)	(6,868)
Net change in total OPEB liability	<hr/> (49,996)	<hr/> 8,212	<hr/> 3,652
Total OPEB liability - beginning	<hr/> 293,507	<hr/> 285,295	<hr/> 281,643
Total OPEB liability - ending (a)	<hr/> \$ 243,511	<hr/> \$ 293,507	<hr/> \$ 285,295

Plan fiduciary net position

Contributions - employer	\$ 6,629	\$ 2,588	\$ 5,612
Contributions - employee	-	-	-
Investment income (net of administrative expenses)	18,162	21,981	33,569
Benefit payments	(6,661)	(6,760)	(6,868)
Administrative expenses	(314)	(335)	(297)
Other	5,668	1	-
Net change in plan fiduciary net position	<hr/> 23,484	<hr/> 17,475	<hr/> 32,016
Plan fiduciary net position - beginning	<hr/> 334,869	<hr/> 317,394	<hr/> 285,378
Plan fiduciary net position - ending (b)	<hr/> \$ 358,353	<hr/> \$ 334,869	<hr/> \$ 317,394
Net OPEB asset - ending (a)-(b)	<hr/> \$ (114,842)	<hr/> \$ (41,362)	<hr/> \$ (32,099)

Plan fiduciary net position as a percentage of the total OPEB liability	147.16%	114.09%	111.25%
Covered payroll	\$ 2,137,279	\$ 2,075,028	\$ 2,014,590
Net OPEB liability (asset) as a percentage of covered payroll	-5.37%	-1.99%	-1.59%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of Changes in the Net Pension/OPEB (Asset) Liability and Related Ratios
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan

	2018-19	2017-18	2016-17¹
Total OPEB Liability			
Service cost	\$ 6,215	\$ 6,551	\$ 6,493
Interest on total OPEB liability	18,429	18,603	17,608
Changes in assumptions	2,311	-	1,094
Differences between expected and actual experience	(45,117)	(22,528)	4,879
Changes in benefit terms	-	-	(4,263)
Benefit payments, including refunds of employee contributions	(6,957)	(8,901)	(9,522)
Net change in total OPEB liability	(25,119)	(6,275)	16,289
Total OPEB liability - beginning	246,298	252,573	236,284
Total OPEB liability - ending (a)	\$ 221,179	\$ 246,298	\$ 252,573
 Plan fiduciary net position			
Contributions - employer	\$ 12,994	\$ 7,543	\$ 9,935
Contributions - employee	-	-	-
Investment income (net of administrative expenses)	8,985	10,605	16,231
Benefit payments	(6,957)	(8,901)	(9,522)
Administrative expenses	(155)	(161)	(143)
Other	5,161	(1)	-
Net change in plan fiduciary net position	20,028	9,085	16,501
Plan fiduciary net position - beginning	163,086	154,001	137,500
Plan fiduciary net position - ending (b)	\$ 183,114	\$ 163,086	\$ 154,001
 Net OPEB liability - ending (a)-(b)	\$ 38,065	\$ 83,212	\$ 98,572
 Plan fiduciary net position as a percentage of the total OPEB liability	82.79%	66.21%	60.97%
Covered payroll	\$ 1,987,176	\$ 1,929,297	\$ 1,873,104
Net OPEB liability (asset) as a percentage of covered payroll	1.92%	4.31%	5.26%

Notes to Schedule:

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

City of Cottonwood
Schedules of Contributions
Last Ten Years
For the Year Ended June 30, 2020

Arizona State Retirement System ("ASRS") Pension Plan

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14¹
Statutorily required contribution	\$ 966,830	\$ 914,919	\$ 882,838	\$ 810,358	\$ 815,999	\$ 271,845	\$ 623,008
Contributions in relation to the statutorily required contributions	(966,830)	(914,919)	(882,838)	(810,358)	(815,999)	(271,845)	(623,008)
Contribution deficiency (excess)	\$ -						
Covered payroll	\$ 4,002,971	\$ 3,886,380	\$ 3,773,184	\$ 3,663,286	\$ 3,556,588	\$ 3,452,998	\$ 3,478,615
Contributions as a percentage of covered payroll	24.15%	23.54%	23.40%	22.12%	22.94%	7.87%	17.91%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2018

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Employees' Retirement System ("ASRS") Health Insurance Premium Benefit Plan

	2019-20	2018-19	2017-18	2016-17¹
Statutorily required contribution	\$ 32,019	\$ 37,644	\$ 34,932	\$ 43,396
Contributions in relation to the statutorily required contributions	(32,019)	(37,644)	(34,932)	(43,396)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 4,002,971	\$ 3,886,380	\$ 3,773,184	\$ 3,663,286
Contributions as a percentage of covered payroll	0.80%	0.97%	0.93%	1.18%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2018

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Employees' Retirement System ("ASRS") Long-Term Disability Plan

	2019-20	2018-19	2017-18	2016-17¹
Statutorily required contribution	\$ 14,131	\$ 13,094	\$ 12,706	\$ 10,882
Contributions in relation to the statutorily required contributions	<u>(14,131)</u>	<u>(13,094)</u>	<u>(12,706)</u>	<u>(10,882)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 4,002,971	\$ 3,886,380	\$ 3,773,184	\$ 3,663,286
Contributions as a percentage of covered payroll	0.35%	0.34%	0.34%	0.30%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2018

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan (Tiers 1 & 2)

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14¹
Actuarially determined contribution	\$ 878,499	\$ 940,547	\$ 974,192	\$ 879,100	\$ 910,441	\$ 601,731	\$ 562,803
Contributions in relation to the actuarially determined contributions	(878,499)	(940,547)	(974,192)	(879,100)	(910,441)	(601,731)	(562,803)
Contribution deficiency (excess)	\$ -						
Covered payroll	\$ 2,201,397	\$ 2,137,279	\$ 2,075,028	\$ 2,014,590	\$ 1,955,913	\$ 2,034,987	\$ 1,913,359
Contributions as a percentage of covered payroll	39.91%	44.01%	46.95%	43.64%	46.55%	29.57%	29.41%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2019

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2016 actuarial valuation.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 20% corridor
Wage inflation	4.00%
Price inflation	3.00%
Salary increases	4.00% to 8.00% including inflation.
Investment rate of return	7.50%, net of investment and administrative expenses
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan (Tiers 1 & 2)

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14¹
Actuarially determined contribution	\$ 392,866	\$ 442,193	\$ 430,827	\$ 324,450	\$ 323,156	\$ 243,520	\$ 268,585
Contributions in relation to the actuarially determined contributions	(392,866)	(442,193)	(430,827)	(324,450)	(323,156)	(243,520)	(268,585)
Contribution deficiency (excess)	\$ -						
Covered payroll	\$ 2,046,792	\$ 1,987,177	\$ 1,929,298	\$ 1,873,104	\$ 1,818,548	\$ 1,604,216	\$ 1,689,214
Contributions as a percentage of covered payroll	19.19%	22.25%	22.33%	17.32%	17.77%	15.18%	15.90%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable.

Notes to Schedule

Valuation date: 6/30/2019

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2016 actuarial valuation.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 20% corridor
Payroll growth	4.00%
Salary increases	3.00%
Salary increases	4.00% to 8.00% including inflation.
Investment rate of return	7.50%, net of investment and administrative expenses
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PS PRS") Police OPEB Plan (Tiers 1 & 2)

	2019-20	2018-19	2017-18	2016-17¹
Actuarially determined contribution	\$ 6,146	\$ 6,482	\$ 8,256	\$ 5,612
Contributions in relation to the actuarially determined contributions	(6,146)	(6,482)	(8,256)	(5,612)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,201,397	\$ 2,137,279	\$ 2,075,028	\$ 2,014,590
Contributions as a percentage of covered payroll	0.28%	0.30%	0.40%	0.28%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2019

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2017-18 were from the June 30, 2016 actuarial valuation.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 20% corridor
Payroll growth	4.00%
Salary increases	3.00%
Salary increases	4.00% to 8.00% including inflation.
Investment rate of return	7.50%, net of investment and administrative expenses.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan (Tiers 1 & 2)

	2019-20	2018-19	2017-18	2016-17¹
Actuarially determined contribution	\$ 3,179	\$ 12,495	\$ 9,935	\$ 9,935
Contributions in relation to the actuarially determined contributions	<u>(3,179)</u>	<u>(12,495)</u>	<u>(9,935)</u>	<u>(9,935)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 1,987,177	\$ 1,929,298	\$ 1,873,104	\$ 1,873,104
Contributions as a percentage of covered payroll	0.16%	0.65%	0.53%	0.53%

¹ Historical information is presented only for measurement periods for which GASB 75 is applicable.

Notes to Schedule

Valuation date: 6/30/2019

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2016-17 were from the June 30, 2012 public agency valuations.

Methods and assumptions used to actuarially determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	20 years; if the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.
Asset valuation method	7-Year smoothed market; 20% corridor
Payroll growth	4.00%
Salary increases	3.00%
Salary increases	4.00% to 8.00% including inflation.
Investment rate of return	7.50%, net of investment and administrative expenses.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table projected to 2015 using projection scale AA (adjusted by 105% for both males and females).

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police Pension Plan (Tier 3)

	2019-20	2018-19	2017-18¹
Statutorily required contribution	\$ 4,933	\$ 8,220	\$ 3,731
Contributions in relation to the statutorily required contributions	(4,933)	(8,220)	(3,731)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 106,456	\$ 103,355	\$ 100,345
Contributions as a percentage of covered payroll	4.63%	7.95%	3.72%

¹ Historical information is presented only for measurement periods for which the plan was in effect.

Notes to Schedule

Valuation date: 6/30/2019

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire Pension Plan (Tier 3)

	2019-20	2018-19	2017-18¹
Statutorily required contribution	\$ 28,740	\$ 9,090	\$ 333
Contributions in relation to the statutorily required contributions	<u>(28,740)</u>	<u>(9,090)</u>	<u>(333)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 80,234	\$ 77,897	\$ 75,628
Contributions as a percentage of covered payroll	35.82%	11.67%	0.44%

¹ Historical information is presented only for measurement periods for which the plan was in effect.

Notes to Schedule

Valuation date: 6/30/2019

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Police OPEB Plan (Tier 3)

	2019-20	2018-19	2017-18¹
Statutorily required contribution	\$ 106	\$ 47	\$ 100
Contributions in relation to the statutorily required contributions	<u>(106)</u>	<u>(47)</u>	<u>(100)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 106,456	\$ 103,355	\$ 100,345
Contributions as a percentage of covered payroll	0.10%	0.05%	0.10%

¹ Historical information is presented only for measurement periods for which the plan was in effect.

Notes to Schedule

Valuation date: 6/30/2019

City of Cottonwood
Schedules of Contributions (Continued)
Last Ten Years
For the Year Ended June 30, 2020

Arizona Public Safety Public Retirement System ("PSPRS") Fire OPEB Plan (Tier 3)

	2019-20	2018-19	2017-18¹
Statutorily required contribution	\$ 616	\$ 93	\$ 9
Contributions in relation to the statutorily required contributions	(616)	(93)	(9)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 80,234	\$ 77,897	\$ 75,628
Contributions as a percentage of covered payroll	0.77%	0.12%	0.01%

¹ Historical information is presented only for measurement periods for which the plan was in effect.

Notes to Schedule

Valuation date: 6/30/2019

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

Supplementary Information

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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Non-Major Governmental Funds

Grant Special Revenue Fund – This fund is used to account for the City's restricted resources from federal, state, and other grants.

HURF Special Revenue Fund - This fund accounts for the City's share of state taxes on gasoline, diesel fuels and other transportation related fees to be used solely for street and highway purposes. Eligible expenditures include the cost of personnel, right-of-way acquisitions, construction, reconstruction, maintenance, repair, roadside development of city roads, streets and bridges and the payment of the principal and interest on highway and street bonds.

Transit Special Revenue Fund - This fund accounts for the operation of the City's public transportation system.

City Capital Projects Fund – This fund is used to account for financial resources to be used for acquisition, construction and improvement of the city's major capital facilities.

City of Cottonwood
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2020

	Special Revenue Fund		
	Grants Fund	HURF Fund	Transit Fund
ASSETS			
Cash and cash investments	\$ 591	\$ 2,347,127	\$ -
Restricted cash and cash investments	- -	717,666	-
Receivables:			
Accounts	20,068	-	-
Taxes	- -	149,512	-
Intergovernmental	75,093	86,412	694,529
Inventories	- -	13,928	-
Total assets	\$ 95,752	\$ 3,314,645	\$ 694,529
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 75,040	\$ 283,108	\$ 26,879
Accrued payroll and related liabilities	- -	6,327	26,309
Due to other funds	- -	- -	428,025
Unearned revenue	9,548	-	-
Interest payable - current portion	- -	92,695	-
Principal payable - current portion	- -	205,930	-
Total liabilities	84,588	588,060	481,213
Fund Balances:			
Nonspendable	- -	13,928	-
Restricted	<u>11,164</u>	<u>2,712,657</u>	<u>213,316</u>
Total fund balances	11,164	2,726,585	213,316
Total liabilities and fund balances	\$ 95,752	\$ 3,314,645	\$ 694,529

City of Cottonwood
Combining Balance Sheet (Continued)
Non-Major Governmental Funds
June 30, 2020

	Capital Project Fund	Total Non-major Governmental Funds
	City Capital Projects Fund	
ASSETS		
Cash and cash investments	\$ 650,625	\$ 2,998,343
Restricted cash and cash investments	175,640	893,306
Receivables:		
Accounts	-	20,068
Taxes	27,322	176,834
Intergovernmental	1,970	858,004
Inventories	-	13,928
Total assets	\$ 855,557	\$ 4,960,483
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 13,241	\$ 398,268
Accrued payroll and related liabilities	-	32,636
Due to other funds	-	428,025
Unearned revenue	-	9,548
Interest payable - current portion	-	92,695
Principal payable - current portion	-	205,930
Total liabilities	13,241	1,167,102
Fund Balances:		
Nonspendable	-	13,928
Restricted	842,316	3,779,453
Total fund balances	842,316	3,793,381
Total liabilities and fund balances	\$ 855,557	\$ 4,960,483

City of Cottonwood
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2020

	Special Revenue Fund		
	Grants Fund	HURF Fund	Transit Fund
REVENUES:			
Taxes	\$ -	\$ 1,385,332	\$ 133,525
Intergovernmental	255,977	1,236,881	1,872,000
Investment income	-	24,539	-
Charges for services	-	-	154,367
Miscellaneous	-	7,014	-
Total revenues	255,977	2,653,766	2,159,892
EXPENDITURES:			
Current:			
General government	210,124	-	-
Highways and streets	-	1,085,263	-
Transportation	-	-	2,036,416
Culture and leisure	59,032	-	-
Capital outlay	-	310,609	126,924
Debt service:			
Principal	-	245,977	-
Interest and fiscal charges, net of amortization of deferred loss on refunding	-	187,179	-
Total expenditures	269,156	1,829,028	2,163,340
REVENUES OVER (UNDER) EXPENDITURES	(13,179)	824,738	(3,448)
OTHER FINANCING SOURCES (USES):			
Transfers in	13,179	-	217,182
Transfers out	-	(213,734)	-
Total other financing sources (uses)	13,179	(213,734)	217,182
Net changes in fund balances	-	611,004	213,734
FUND BALANCES:			
Beginning of year	11,164	2,115,581	(418)
End of year	\$ 11,164	\$ 2,726,585	\$ 213,316

City of Cottonwood
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Non-Major Governmental Funds
For the Year Ended June 30, 2020

	Capital Project Fund	Total Non-major Governmental Funds
	City Capital Projects Fund	Funds
REVENUES:		
Taxes	\$ 270,952	\$ 1,789,809
Intergovernmental	94,064	3,458,922
Investment income	21,147	45,686
Charges for services	-	154,367
Miscellaneous	-	7,014
Total revenues	386,163	5,455,798
EXPENDITURES:		
Current:		
General government	101,836	311,960
Highways and streets	-	1,085,263
Transportation	-	2,036,416
Culture and leisure	-	59,032
Capital outlay	-	437,533
Debt service:		
Principal	-	245,977
Interest and fiscal charges, net of amortization of deferred loss on refunding	-	187,179
Total expenditures	101,836	4,363,360
REVENUES OVER (UNDER) EXPENDITURES	284,327	1,092,438
OTHER FINANCING SOURCES (USES):		
Transfers in	-	230,361
Transfers out	-	(213,734)
Total other financing sources (uses)	-	16,627
Net changes in fund balances	284,327	1,109,065
FUND BALANCES:		
Beginning of year	557,989	2,684,316
End of year	\$ 842,316	\$ 3,793,381

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Debt Service Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 1,640,115	\$ 1,642,065	\$ 1,642,174	\$ 109
Investment income	650	750	638	(112)
Total revenues	1,640,765	1,642,815	1,642,812	(3)
EXPENDITURES:				
Debt service:				
Principal	1,170,555	1,170,555	1,170,553	2
Interest and fiscal charges, net of amortization of deferred loss on refunding	473,760	472,260	474,284	(2,024)
Total expenditures	1,644,315	1,642,815	1,644,837	(2,022)
REVENUE OVER (UNDER) EXPENDITURES	(3,550)	-	(2,025)	(2,025)
Net change in fund balances	\$ (3,550)	\$ -	(2,025)	\$ (2,025)
FUND BALANCE:				
Beginning of year			366,237	
End of year			\$ 364,212	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Grant Special Revenue Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,337,685	\$ 312,065	\$ 255,977	\$ (56,088)
Total revenues	2,337,685	312,065	255,977	(56,088)
EXPENDITURES:				
Current:				
Highways and streets	-	11,165	-	11,165
Capital outlay	1,750,310	120,000	-	120,000
Total expenditures	2,877,310	334,880	269,156	65,724
REVENUE OVER (UNDER) EXPENDITURES	(539,625)	(22,815)	(13,179)	9,636
OTHER FINANCING SOURCES (USES):				
Transfers in	(438,580)	11,650	13,179	1,529
Total other financing sources (uses)	(438,580)	11,650	13,179	1,529
Net change in fund balances	\$ (978,205)	\$ (11,165)	-	\$ 11,165
FUND BALANCE:				
Beginning of year			11,164	
End of year			\$ 11,164	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
HURF Special Revenue Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 1,317,520	\$ 1,295,280	\$ 1,385,332	\$ 90,052
Intergovernmental	1,187,110	1,393,690	1,236,881	(156,809)
Investment income	10,000	22,920	24,539	1,619
Miscellaneous	-	-	7,014	7,014
Total revenues	2,514,630	2,711,890	2,653,766	(58,124)
EXPENDITURES:				
Current:				
Highways and streets	1,321,105	3,976,200	1,085,263	2,890,937
Capital outlay	2,881,180	677,290	310,609	366,681
Debt service:				
Principal	245,980	245,820	245,977	(157)
Interest and fiscal charges, net of amortization of deferred loss on refunding	187,180	187,340	187,179	161
Total expenditures	4,635,445	5,086,650	1,829,028	3,257,622
REVENUE OVER (UNDER) EXPENDITURES	(2,120,815)	(2,374,760)	824,738	3,199,498
OTHER FINANCING SOURCES (USES):				
Transfers in	259,180	259,180	-	(259,180)
Total other financing sources (uses)	259,180	259,180	(213,734)	(472,914)
Net change in fund balances	\$ (1,861,635)	\$ (2,115,580)	611,004	\$ 2,726,584
FUND BALANCE:				
Beginning of year			2,115,581	
End of year			\$ 2,726,585	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Transit Special Revenue Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ 378,970	\$ 133,525	\$ 133,525	\$ -
Intergovernmental	1,795,405	2,094,225	1,872,000	(222,225)
Charges for services	238,850	168,425	154,367	(14,058)
Total revenues	2,413,225	2,396,175	2,159,892	(236,283)
EXPENDITURES:				
Current:				
Transportation	2,163,225	2,093,590	2,036,416	57,174
Capital outlay	250,000	303,005	126,924	176,081
Total expenditures	2,413,225	2,396,595	2,163,340	233,255
REVENUE OVER (UNDER) EXPENDITURES				
	-	(420)	(3,448)	(3,028)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	420	217,182	216,762
Total other financing sources (uses)	-	420	217,182	216,762
Net change in fund balances	\$ -	\$ -	213,734	\$ 213,734
FUND BALANCE:				
Beginning of year			(418)	
End of year			\$ 213,316	

City of Cottonwood
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ -	\$ 270,952	\$ 270,952
Intergovernmental	143,000	143,000	94,064	(48,936)
Investment income	1,000	-	21,147	21,147
Total revenues	144,000	143,000	386,163	243,163
EXPENDITURES:				
Current:				
General government	150,000	147,060	101,836	45,224
Total expenditures	150,000	147,060	101,836	45,224
REVENUE OVER (UNDER) EXPENDITURES	(6,000)	(4,060)	284,327	288,387
OTHER FINANCING SOURCES (USES):				
Transfers out	(25,965)	-	-	-
Total other financing sources (uses)	(25,965)	-	-	-
Net change in fund balances	\$ (31,965)	\$ (4,060)	284,327	\$ 288,387
FUND BALANCE:				
Beginning of year			557,989	
End of year			\$ 842,316	

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

Statistical Section

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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City of Cottonwood
Statistical Section
Overview

This part of the City of Cottonwood's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health.

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City of Cottonwood
Net Position by Component
Last Ten Fiscal Years Ended June 30, 2020
(accrual basis of accounting)

	Fiscal Year				
	2020	2019	2018	2017	2016
Governmental activities					
Net investment in capital assets	\$ 27,118,419	\$ 27,277,629	\$ 27,332,884	\$ 24,457,732	\$ 26,266,479
Restricted	4,127,464	3,010,461	2,612,991	4,287,185	3,059,882
Unrestricted	<u>(11,650,963)</u>	<u>(13,832,151)</u>	<u>(15,403,566)</u>	<u>(7,801,463)</u>	<u>(5,612,279)</u>
Total governmental activities net position	<u>\$ 19,594,920</u>	<u>\$ 16,455,939</u>	<u>\$ 14,542,309</u>	<u>\$ 20,943,454</u>	<u>\$ 23,714,082</u>
Business-type activities					
Net investment in capital assets	\$ 27,364,275	\$ 27,089,493	\$ 24,493,779	\$ 18,333,192	\$ 13,642,806
Restricted	7,674,983	12,252,785	7,536,216	-	1,802,675
Unrestricted	<u>12,015,527</u>	<u>4,198,028</u>	<u>8,424,140</u>	<u>10,483,581</u>	<u>9,576,508</u>
Total business-type activities net position	<u>\$ 47,054,785</u>	<u>\$ 43,540,306</u>	<u>\$ 40,454,135</u>	<u>\$ 28,816,773</u>	<u>\$ 25,021,989</u>
Primary government					
Net investment in capital assets	\$ 54,482,694	\$ 54,367,122	\$ 51,826,663	\$ 42,790,924	\$ 39,909,285
Restricted	11,802,447	15,263,246	10,149,207	4,287,185	4,862,557
Unrestricted	<u>364,564</u>	<u>(9,634,123)</u>	<u>(6,979,426)</u>	<u>2,682,118</u>	<u>3,964,229</u>
Total primary government net position	<u>\$ 66,649,705</u>	<u>\$ 59,996,245</u>	<u>\$ 54,996,444</u>	<u>\$ 49,760,227</u>	<u>\$ 48,736,071</u>

City of Cottonwood
Net Position by Component (Continued)
Last Ten Fiscal Years Ended June 30, 2020
(accrual basis of accounting)

	Fiscal Year				
	2015	2014	2013	2012	2011
Governmental activities					
Net investment in capital assets	\$ 32,767,938	\$ 29,811,017	\$ 26,606,032	\$ 23,573,513	\$ 22,889,100
Restricted	1,290,122	1,210,126	1,371,766	2,034,245	15,552,386
Unrestricted	<u>(7,294,803)</u>	<u>12,155,916</u>	<u>15,580,011</u>	<u>19,084,334</u>	<u>7,331,500</u>
Total governmental activities net position	<u>\$ 26,763,257</u>	<u>\$ 43,177,059</u>	<u>\$ 43,557,809</u>	<u>\$ 44,692,092</u>	<u>\$ 45,772,986</u>
Business-type activities					
Net investment in capital assets	\$ 5,440,590	\$ 4,851,385	\$ 4,306,570	\$ 3,354,977	\$ 7,739,853
Restricted	2,557,734	2,557,755	2,557,755	2,557,735	-
Unrestricted	<u>15,069,210</u>	<u>15,941,213</u>	<u>15,474,955</u>	<u>18,780,859</u>	<u>17,575,709</u>
Total business-type activities net position	<u>\$ 23,067,534</u>	<u>\$ 23,350,353</u>	<u>\$ 22,339,280</u>	<u>\$ 24,693,571</u>	<u>\$ 25,315,562</u>
Primary government					
Net investment in capital assets	\$ 38,208,528	\$ 34,662,402	\$ 30,912,602	\$ 26,928,490	\$ 30,628,953
Restricted	3,847,856	3,767,881	3,929,521	4,591,980	15,552,386
Unrestricted	<u>7,774,407</u>	<u>28,097,129</u>	<u>31,054,966</u>	<u>37,865,193</u>	<u>24,907,209</u>
Total primary government net position	<u>\$ 49,830,791</u>	<u>\$ 66,527,412</u>	<u>\$ 65,897,089</u>	<u>\$ 69,385,663</u>	<u>\$ 71,088,548</u>

City of Cottonwood
Changes in Net Position
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2020	2019	2018	2017	2016
Expenses					
Governmental Activities					
General government	\$ 6,651,834	\$ 5,947,814	\$ 5,357,347	\$ 9,016,421	\$ 5,653,593
Public Safety	11,945,539	12,099,647	12,214,453	12,252,315	10,567,676
Highway and streets	1,809,652	1,419,997	1,634,741	3,817,500	3,999,492
Transportation	2,147,294	2,300,410	2,174,021	-	-
Culture and recreation	4,455,091	4,107,450	4,144,697	3,767,245	4,239,038
Redevelopment and housing	-	-	-	-	-
Interest on long-term debt	650,224	691,681	614,906	1,208,866	938,399
Total governmental activities expenses	<u>27,659,634</u>	<u>26,566,999</u>	<u>26,140,165</u>	<u>30,062,347</u>	<u>25,398,198</u>
Business-Type Activities					
Water	5,348,996	5,273,405	5,409,263	4,667,663	6,667,587
Sewer	2,830,268	2,876,534	2,386,840	2,750,544	2,339,933
Total business-type activities expenses	<u>8,179,264</u>	<u>8,149,939</u>	<u>7,796,103</u>	<u>7,418,207</u>	<u>9,007,520</u>
Total primary government expenses	<u>\$ 35,838,898</u>	<u>\$ 34,716,938</u>	<u>\$ 33,936,268</u>	<u>\$ 37,480,554</u>	<u>\$ 34,405,718</u>
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,267,587	\$ 1,469,608	\$ 1,886,679	\$ 1,745,730	\$ 1,252,512
Public safety	905,165	888,666	835,855	800,601	626,941
Highways and streets	-	-	-	207,002	358,991
Transportation	154,367	211,490	207,920	-	-
Culture and leisure	775,578	1,029,563	1,093,849	1,023,178	984,529
Redevelopment and housing	-	-	-	-	-
Operating grants and contributions	3,772,457	3,358,972	3,292,725	2,971,986	2,434,617
Capital grants and contributions	770,600	601,461	2,494,456	2,220,427	348,290
Total governmental activities program revenues	<u>7,645,754</u>	<u>7,559,760</u>	<u>9,811,484</u>	<u>8,968,924</u>	<u>6,005,880</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	8,073,195	7,744,901	8,011,771	7,608,838	7,496,231
Sewer	3,266,899	3,076,218	2,620,736	2,486,514	2,438,088
Total business-type activities program revenues	<u>11,340,094</u>	<u>10,821,119</u>	<u>10,632,507</u>	<u>10,095,352</u>	<u>9,934,319</u>
Total primary government program revenues	<u>\$ 18,985,848</u>	<u>\$ 18,380,879</u>	<u>\$ 20,443,991</u>	<u>\$ 19,064,276</u>	<u>\$ 15,940,199</u>
Net (Expense) Revenue					
Governmental activities	\$ (20,013,880)	\$ (19,007,239)	\$ (16,328,681)	\$ (21,093,423)	\$ (19,392,318)
Business-type activities	3,160,830	2,671,180	2,836,404	2,677,145	926,799
Total primary government	<u>\$ (16,853,050)</u>	<u>\$ (16,336,059)</u>	<u>\$ (13,492,277)</u>	<u>\$ (18,416,278)</u>	<u>\$ (18,465,519)</u>

City of Cottonwood
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2015	2014	2013	2012	2011
Expenses					
Governmental Activities					
General government	\$ 4,815,686	\$ 5,245,413	\$ 4,584,034	\$ 5,162,738	\$ 5,174,022
Public Safety	9,270,523	8,354,188	8,035,427	7,364,363	7,319,363
Highway and streets	4,222,310	3,468,654	3,134,571	2,373,133	2,409,649
Transportation	-	-	-	-	-
Culture and recreation	3,748,143	3,687,518	3,561,035	3,347,540	3,092,946
Redevelopment and housing	-	-	-	120,858	96,330
Interest on long-term debt	815,524	710,755	790,903	822,514	910,875
Total governmental activities expenses	<u>22,872,186</u>	<u>21,466,528</u>	<u>20,105,970</u>	<u>19,191,146</u>	<u>19,003,185</u>
Business-Type Activities					
Water	5,776,752	6,206,940	6,650,327	5,988,525	6,113,747
Wastewater	2,360,966	2,377,111	2,423,868	2,176,959	2,083,265
Total business-type activities expenses	<u>8,137,718</u>	<u>8,584,051</u>	<u>9,074,195</u>	<u>8,165,484</u>	<u>8,197,012</u>
Total primary government expenses	\$ 31,009,904	\$ 30,050,579	\$ 29,180,165	\$ 27,356,630	\$ 27,200,197
Program Revenues					
Governmental Activities:					
Fines, Fees and Charges for services:					
General government	\$ 1,249,543	\$ 1,248,788	\$ 1,234,930	\$ 1,740,320	\$ 1,037,848
Public safety	182,682	65,481	204,582	178,281	164,832
Highways and streets	336,854	362,365	286,118	-	69,734
Transportation	-	-	-	-	-
Culture and leisure	938,362	824,333	829,139	913,028	877,905
Redevelopment and housing	-	-	-	10,698	-
Operating grants and contributions	2,383,018	2,330,406	2,824,452	1,359,992	1,825,975
Capital grants and contributions	288,143	509,917	19,699	293,486	327,435
Total governmental activities program revenues	<u>5,378,602</u>	<u>5,341,290</u>	<u>5,398,920</u>	<u>4,495,805</u>	<u>4,303,729</u>
Program Revenues					
Business-type activities					
Charges for services:					
Water	7,432,085	6,818,887	5,885,521	5,699,389	5,609,144
Sewer	2,305,897	2,406,542	1,642,860	1,448,862	1,556,036
Total business-type activities program revenues	<u>9,737,982</u>	<u>9,225,429</u>	<u>7,528,381</u>	<u>7,148,251</u>	<u>7,165,180</u>
Total primary government program revenues	\$ 15,116,584	\$ 14,566,719	\$ 12,927,301	\$ 11,644,056	\$ 11,468,909
Net (Expense) Revenue					
Governmental activities	\$ (17,493,584)	\$ (16,125,238)	\$ (14,707,050)	\$ (14,695,341)	\$ (14,699,456)
Business-type activities	1,600,264	641,378	(1,545,814)	(1,017,233)	(1,031,832)
Total primary government	<u>\$ (15,893,320)</u>	<u>\$ (15,483,860)</u>	<u>\$ (16,252,864)</u>	<u>\$ (15,712,574)</u>	<u>\$ (15,731,288)</u>

City of Cottonwood
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2020	2019	2018	2017	2016
General Revenue and					
Other Changes in Net Position					
Net Revenue/(Expense)	(16,853,050)	(16,336,059)	(13,492,277)	(18,416,278)	(18,465,519)
Governmental Activities					
Taxes:					
Sales taxes	18,588,547	16,453,665	14,275,812	\$ 13,982,967	\$ 13,385,256
Motor vehicle in-lieu tax	866,283	848,579	781,103	758,271	710,155
Franchise taxes	303,659	404,620	416,542	370,646	349,537
Transit occupancy tax	386,302	288,333	243,347	214,976	-
State shared revenue	2,838,005	2,666,814	2,637,072	2,528,894	2,422,844
Investment Income	129,036	135,426	75,947	17,668	175,351
Miscellaneous	41,029	48,496	278,646	445,770	-
Gain on sale of assets	-	74,936	12,466	3,603	-
Transfers	-	-	(8,715,709)	-	(700,000)
Total governmental activities	<u>23,152,861</u>	<u>20,920,869</u>	<u>10,005,226</u>	<u>18,322,795</u>	<u>16,343,143</u>
Business-type activities:					
Investment income	353,649	364,451	119,643	374,976	327,656
Miscellaneous	-	78,225	60,644	28,288	-
Gain of disposal of capital assets	-	(27,685)	(95,441)	4,975	-
Transfers	-	-	8,715,709	-	700,000
Total business activities	<u>353,649</u>	<u>414,991</u>	<u>8,800,555</u>	<u>408,239</u>	<u>1,027,656</u>
Total primary government	<u>\$ 23,506,510</u>	<u>\$ 21,335,860</u>	<u>\$ 18,805,781</u>	<u>\$ 18,731,034</u>	<u>\$ 17,370,799</u>
Change in Net Position	<u>\$ 6,653,460</u>	<u>\$ 4,999,801</u>	<u>\$ 5,313,504</u>	<u>\$ 314,756</u>	<u>\$ (1,094,720)</u>

City of Cottonwood
Changes in Net Position (Continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2015	2014	2013	2012	2011
General Revenue and Other Changes in Net Position					
	(15,893,320)	(15,893,320)	(16,252,864)	(15,712,574)	(15,731,288)
Governmental Activities					
Taxes:					
Sales taxes	\$ 12,774,860	\$ 12,774,860	\$ 11,329,353	\$ 10,579,983	\$ 10,624,971
Motor Vehicle in-lieu tax	660,786	660,786	563,851	602,832	582,707
Franchise taxes	368,062	368,062	363,653	359,871	240,140
Transit occupancy tax	-	-	-	-	-
Unrestricted state shared revenue	2,393,192	2,393,192	2,088,713	1,831,024	1,890,634
Investment earnings	146,102	146,102	(71,463)	240,737	142,386
Miscellaneous	-	-	-	-	-
Gain on sale of assets	-	-	-	-	-
Transfers	-	-	(398,256)	-	-
Total governmental activities	<u>16,343,002</u>	<u>16,343,002</u>	<u>13,875,851</u>	<u>13,614,447</u>	<u>13,480,838</u>
Business-type activities:					
Investment income	305,896	305,896	328,570	395,242	390,179
Miscellaneous	-	-	-	-	-
Gain of disposal of capital assets	-	-	-	-	13,567
Transfers	-	-	398,256	-	-
Total business activities	<u>305,896</u>	<u>305,896</u>	<u>726,826</u>	<u>395,242</u>	<u>403,746</u>
Total primary government	<u>\$ 16,648,898</u>	<u>\$ 16,648,898</u>	<u>\$ 14,602,677</u>	<u>\$ 14,009,689</u>	<u>\$ 13,884,584</u>
Change in Net Position	<u>\$ 755,578</u>	<u>\$ 755,578</u>	<u>\$ (1,650,187)</u>	<u>\$ (1,702,885)</u>	<u>\$ (1,846,704)</u>

City of Cottonwood
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2020	2019	2018	2017	2016
General Fund					
Nonspendable	\$ 86,988	\$ 21,568	\$ 29,225	\$ 21,397	\$ 40,249
Restricted	-	-	-	-	-
Assigned	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Unassigned	<u>6,955,514</u>	<u>3,772,894</u>	<u>2,154,755</u>	<u>4,206,786</u>	<u>4,187,934</u>
Total general fund	<u>\$ 8,042,502</u>	<u>\$ 4,794,462</u>	<u>\$ 3,183,980</u>	<u>\$ 5,228,183</u>	<u>\$ 5,228,183</u>
All Other Governmental Funds					
Nonspendable	\$ 30,129	\$ 40,510	\$ 50,131	\$ 22,275	\$ 15,311
Restricted	4,127,464	3,010,461	2,622,474	4,287,185	5,708,599
Assigned	-	-	-	5,674,582	5,592,044
Unassigned	-	(418)	-	-	-
Total all other governmental funds	<u>\$ 4,157,593</u>	<u>\$ 3,050,553</u>	<u>\$ 2,672,605</u>	<u>\$ 9,984,042</u>	<u>\$ 11,315,954</u>

City of Cottonwood
Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2015	2014	2013	2012	2011
General Fund					
Nonspendable	46,261	20,608	5,095	35,436	36,961
Restricted	144,477	1,287,757	-	-	-
Assigned	1,000,000	1,000,000	1,259,750	2,214,190	-
Unassigned	4,599,804	3,674,772	4,624,668	4,177,319	7,018,946
Total general fund	\$ 5,790,542	\$ 5,983,137	\$ 5,889,513	\$ 6,426,945	\$ 7,055,907
All Other Governmental Funds					
Nonspendable	\$ 15,311	\$ 18,988	\$ 21,233	\$ 31,164	\$ 11,450
Restricted	9,421,521	1,210,126	2,241,263	2,034,245	15,540,936
Assigned	3,650,405	8,318,189	9,658,940	12,906,562	-
Unassigned	-	(488,916)	(465,433)	(479,188)	-
Total all other governmental funds	\$ 13,087,237	\$ 9,058,387	\$ 11,456,003	\$ 14,492,783	\$ 15,552,386

City of Cottonwood
Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2020	2019	2018	2017	2016
Revenues:					
Taxes	\$ 19,278,508	\$ 17,146,618	\$ 14,935,701	\$ 14,568,589	\$ 13,734,793
Intergovernmental revenues	7,629,598	6,518,230	8,704,128	7,862,119	5,742,590
Licenses and permits	281,099	568,297	327,452	279,814	279,698
Fines and forfeits	172,572	213,450	178,504	147,698	149,459
Rents and royalties	129,751	159,879	118,756	257,931	181,608
Investment income	129,036	134,119	75,947	17,668	174,473
Charges for services	1,956,531	2,333,342	2,547,571	2,481,394	2,454,952
Contributions	34,050	30,935	36,419	31,725	73,607
Miscellaneous	1,187,470	1,300,823	1,595,475	1,740,887	157,256
Total revenues	30,798,615	28,405,693	28,519,953	27,387,825	22,948,436
Expenditures:					
Current:					
General government	6,317,896	6,139,003	6,103,437	5,705,624	4,665,822
Public safety	10,277,695	11,071,615	10,801,786	10,657,958	9,251,574
Highways and street	1,085,263	908,747	1,059,037	2,429,760	2,816,635
Transportation	2,036,416	1,789,161	1,598,318	-	-
Culture and recreation	3,609,900	3,303,096	3,401,603	3,222,539	3,198,799
Redevelopment and housing	-	-	-	-	-
Capital outlay	592,442	2,200,382	3,672,088	5,157,047	2,341,365
Debt service:					
Principal retirement	1,842,083	1,544,610	1,783,911	1,776,500	1,322,010
Interest on long-term debt	787,489	828,946	752,170	999,972	985,873
Bond issuance costs	-	-	-	-	-
Total expenditures	26,549,184	27,785,560	29,172,350	29,949,400	24,582,078
Excess of revenues over (under) expenditures	4,249,431	620,133	(652,397)	(2,561,575)	(1,633,642)
Other Financing Sources (Uses)					
Issuance of long-term debt	-	1,285,928	-	13,544,732	-
Premium on issuance of long-term debt	-	-	-	1,524,485	-
Deposit to escrow for bond refunding	-	-	-	(13,613,249)	-
Cost of issuance	-	-	-	(238,961)	-
Sales of Property	105,649	82,369	12,466	12,656	-
Capital lease agreements	-	-	-	-	-
Transfers in	230,361	25,512	5,146,961	1,112,808	4,216
Transfers out	(230,361)	(25,512)	(13,862,670)	(1,112,808)	(704,216)
Total other financing sources (uses)	105,649	1,368,297	(8,703,243)	1,229,663	(700,000)
Net change in fund balances	\$ 4,355,080	\$ 1,988,430	\$ (9,355,640)	\$ (1,331,912)	\$ (2,333,642)
Debt service as a percentage of noncapital expenditures	10.1%	9.3%	9.9%	10.7%	9.8%

City of Cottonwood
Changes in Fund Balances of Governmental Funds (Continued)
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year				
	2015	2014	2013	2012	2011
Revenues:					
Taxes	\$ 13,142,922	\$ 12,648,502	\$ 11,693,006	\$ 10,939,854	\$ 10,865,111
Intergovernmental revenues	5,724,063	5,714,445	4,373,390	3,953,440	4,618,408
Licenses and permits	229,810	292,341	227,930	120,239	141,637
Fines and forfeits	160,813	176,208	175,728	220,557	167,312
Rents and royalties	143,578	162,606	117,969	95,311	114,985
Investment income	145,268	211,420	(69,562)	239,608	142,754
Charges for services	1,906,025	1,739,844	1,771,992	2,322,410	1,780,365
Contributions	1,076	9,292	8,652	133,894	8,343
Miscellaneous	267,215	129,968	261,150	83,810	123,955
Total revenues	21,720,770	21,084,626	18,560,255	18,109,123	17,962,870
Expenditures:					
Current:					
General government	4,510,920	4,347,532	3,899,655	4,909,750	4,561,617
Public safety	8,254,360	7,888,166	6,909,737	6,843,873	6,908,826
Highways and street	3,111,725	2,565,264	2,196,120	1,788,597	1,940,247
Transportation	-	-	-	-	-
Culture and recreation	3,059,962	2,869,610	2,593,264	2,437,903	2,269,302
Redevelopment and housing	-	-	-	113,931	96,565
Capital outlay	5,498,903	4,598,404	4,273,284	1,872,067	738,814
Debt service:					
Principal retirement	1,332,649	1,241,480	1,672,415	1,612,775	1,513,413
Interest on long-term debt	695,238	728,162	808,310	819,827	908,188
Bond issuance costs	137,693	-	-	-	-
Total expenditures	26,601,450	24,238,618	22,352,785	20,398,723	18,936,972
Excess of revenues over (under) expenditures	(4,880,680)	(3,153,992)	(3,792,530)	(2,289,600)	(974,102)
Other Financing Sources (Uses)					
Issuance of long-term debt	8,115,584	-	-	-	-
Premium on issuance of long-term debt	601,351	-	-	-	-
Deposit to escrow for bond refunding	-	-	-	-	-
Cost of issuance	-	-	-	-	-
Sales of Property	-	-	-	-	-
Capital lease agreements	-	850,000	616,574	601,035	-
Transfers in	3,119,148	305,268	1,613,600	-	-
Transfers out	(3,119,048)	(305,268)	(2,011,856)	-	-
Total other financing sources (uses)	8,717,035	850,000	218,318	601,035	-
Net change in fund balances	\$ 3,836,355	\$ (2,303,992)	\$ (3,574,212)	\$ (1,688,565)	\$ (974,102)
Debt service as a percentage of noncapital expenditures	10.4%	10.0%	14.7%	13.0%	13.6%

City of Cottonwood
General Governmental Tax Revenues By Source
Last Ten Fiscal Years
(in thousands)

Fiscal Year	Sales Tax	Occupancy Tax	Franchise Tax	Utility Taxes	Total
2020	18,223,410	386,302	303,659	365,137	19,278,508
2019	16,136,973	288,333	404,620	316,692	17,146,618
2018	14,023,394	243,347	416,542	252,417	14,935,701
2017	13,758,577	214,976	370,646	224,390	14,568,589
2016	12,967,957	187,211	349,537	230,088	13,734,793
2015	12,390,295	161,960	368,062	222,605	13,142,922
2014	11,930,653	129,820	371,886	216,143	12,648,502
2013	11,014,097	105,538	363,653	209,718	11,693,006
2012	10,265,355	104,143	359,871	210,485	10,939,854
2011	10,319,948	101,677	240,140	203,346	10,865,111

City of Cottonwood
Direct and Overlapping Sales Tax Rates
Last Ten Fiscal Years

Overlapping Rates

Fiscal Year	City of Cottonwood	Yavapai County	State of Arizona
2020	3.50	0.75	5.60
2019	3.50	0.75	5.60
2018	3.00	0.75	5.60
2017	3.00	0.75	5.60
2016	3.00	0.75	5.60
2015	3.00	0.75	5.60
2014	3.00	0.75	5.60
2013	3.00	0.75	5.60
2012	3.00	0.75	5.60
2011	3.00	0.75	5.60
2010	3.00	0.75	5.60

Source: The source of this information is the Property Tax Rates and Assessed Values, Arizona Tax Research Foundation

City of Cottonwood
Taxable Sales By Category
Last Ten Calendar Years (10,000)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Construction	\$ 23,321	\$ 29,985	\$ 27,795	\$ 28,548	\$ 12,131
Manufacturing	2,486	2,512	3,998	754	8,210
Communications and utilities	14,558	16,041	12,647	12,647	6,642
Wholesale Trade	-	-	-	-	-
Retail Trade	420,086	331,672	343,540	343,540	307,992
Restaurants and Bars	49,864	46,149	43,296	43,296	38,022
Real estate, rental and lease	41,403	40,220	38,158	38,159	35,800
Hotels and Other Lodging	16,477	21,596	15,023	15,023	6,509
Services	-	-	-	-	-
All Others Not Specified	1,269	1,048	483	2,973	57,943
Total	<u>\$ 569,464</u>	<u>\$ 489,223</u>	<u>\$ 484,940</u>	<u>\$ 484,940</u>	<u>\$ 473,249</u>

City of Cottonwood
Taxable Sales By Category (Continued)
Last Ten Calendar Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Construction	\$ 19,450	\$ 19,609	\$ 19,783	\$ 19,783	\$ 12,410
Manufacturing	7,198	7,055	6,146	6,146	5,803
Communications and utilities	12,769	12,115	12,293	12,293	12,786
Wholesale Trade	3,343	2,465	2,270	2,270	2,005
Retail Trade	292,839	268,377	260,464	260,464	236,753
Restaurants and Bars	36,101	34,066	31,607	31,607	29,636
Real estate, rental and lease	37,018	39,539	36,120	36,120	31,397
Hotels and Other Lodging	10,366	8,816	7,754	7,754	7,443
Services	10,999	9,924	9,402	9,402	8,359
All Others Not Specified	<u>9,857</u>	<u>2,703</u>	<u>5,292</u>	<u>5,292</u>	<u>5,347</u>
Total	<u>\$ 439,940</u>	<u>\$ 404,669</u>	<u>\$ 391,129</u>	<u>\$ 391,129</u>	<u>\$ 351,939</u>

Source: The source of this information is the Arizona Department of Revenue.

Note: Taxable sales were only available on a calendar year basis.

The Department of Revenue has changed the way that they report sales tax to the Cities and some of the categories change in 2016

City of Cottonwood
Outstanding Debt by Type
Last Ten Fiscal Years

Governmental Activities

Fiscal Year Ending June 30	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total
2020	\$ 17,980,153	\$ -	1,378,953	\$ 19,359,106
2019	19,498,151	-	1,844,552	21,342,703
2018	20,979,005	-	1,140,441	22,119,446
2017	22,531,286	-	1,670,484	24,201,770
2016	8,686,868	14,177,929	895,278	23,760,075
2015	8,716,935	15,070,336	1,307,288	25,094,559
2014	-	15,700,000	1,764,937	17,464,937
2013	150,000	16,865,000	1,316,417	18,331,417
2012	290,000	17,975,000	1,057,258	19,322,258
2011	290,000	17,975,000	819,000	19,084,000

Source: The source of this information is the City's financial records.

Note: N/A indicates the information was either not available or not applicable.

City of Cottonwood
Outstanding Debt by Type (Continued)
Last Ten Fiscal Years

Fiscal Year Ending June 30	Business-Type Activates				Total Outstanding Debt		
	Revenue Bonds	Loans Payable	Capital Leases	Total	Total Debt	Personal Income	Percentage of Per Capita
2020	\$ 3,044,915	\$ 19,652,522	\$ -	\$ 22,697,437	\$ 42,056,543	N/A	\$ -
2019	3,193,930	21,011,061	-	24,204,991	45,547,694	N/A	-
2018	3,340,090	22,343,732	413,270	26,097,092	48,216,538	N/A	-
2017	3,244,416	22,418,796	820,068	26,483,280	50,685,050	N/A	4,228
2016	23,911,915	23,756,290	1,220,494	48,888,699	72,648,774	18.76	6,147
2015	24,551,327	9,696,290	1,614,650	35,862,267	60,956,826	15.75	5,161
2014	31,750,000	-	2,000,000	33,750,000	51,214,937	13.72	4,337
2013	32,725,000	-	-	32,725,000	51,056,417	13.67	4,323
2012	33,690,000	-	-	33,690,000	53,012,258	14.42	4,668
2011	33,690,000	-	-	33,690,000	52,774,000	14.22	4,685

Source: The source of this information is the City's financial records. Note: N/A

Note: N/A indicates the information was either not available or not applicable.

City of Cottonwood
Ratios of Debt Outstanding
Last Ten Calendar Years

Year	Excise tax Backed Bonds	Taxable Sales	Percentage of outstanding bonds to taxable sales	Population	Net general obligation bonded debt per capita
2020	\$ 21,025,068	\$ 566,876,577	3.71%	12,253	\$ 1,716
2019	22,692,081	\$ 501,274,855	0.05	12,249	1,853
2018	24,319,095	484,940,003	5.01	12,133	2,004
2017	25,775,702	473,249,667	5.45	11,990	2,150
2016	10,900,000	439,940,000	2.48	11,818	922
2015	11,360,000	404,669,000	2.81	11,810	962
2014	-	391,129,000	0.00	11,810	-
2013	150,000	372,907,000	0.04	11,810	13
2012	290,000	351,940,000	0.08	11,356	26
2011	290,000	344,346,000	0.08	11,265	26
2010	425,000	358,070,000	0.12	12,180	35

Sources: The City of Cottonwood, Arizona and the Department of Economic Security.

City of Cottonwood
Direct and Overlapping Governmental Activities Debt
As of June 30, 2019

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Amount Overlapping Debt
Overlapping Debt:			
Yavapai Community College	\$ 16,505,000	42.98%	12,292,280
Mingus Union High School District	\$ 10,435,004	11.39%	<u>\$ 1,707,931</u>
Total Overlapping Debt			14,000,211
Direct:			
City of Cottonwood			<u>40,762,034</u>
Total Direct Debt			<u>54,762,245</u>

DIRECT AND OVERLAPPING GENERAL BONDED DEBT RATIOS

Net Direct General Obligation Bonded Debt		
As a Percentage of Net Limited Assessed Valuation		N/A
Net Direct and Overlapping General Bonded Debt		
Per Capita	\$ 3,208.00	
As a Percentage of Net Limited Assessed Valuation	36.93%	
As a Percentage of Gross Full Cash Value	5.51%	

Source: The source of this information is the City's records and the State and County Abstract of the Assessment Roll, Arizona Department of Revenue and the applicable government unit.

Notes:

- 1) Estimated percentage of debt outstanding applicable to the City is calculated based on a portion of the City's net limited assessed valuation as a percentage of the net limited assessed valuation of the overlapping jurisdiction.
- 2) Outstanding debt as of June 30, 2015 is presented for the overlapping governments as this is the most recent available information.

City of Cottonwood
Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2020:

Net full cash assessed valuation	\$144,894,937
Debt limit (6%)	8,693,696
Debt applicable to limit	-
Legal debt margin	<u>\$153,588,633</u>

	2020	2019	2018	2017	2016
Total 20% Debt Limit	28,978,987	25,587,171	24,009,228	\$19,767,803	\$20,447,479
Total net debt applicable to 20% limit	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Legal 20% debt margin	<u>\$ 28,978,987</u>	<u>\$ 25,587,171</u>	<u>\$ 24,009,228</u>	<u>\$ 19,767,803</u>	<u>\$ 20,447,479</u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	2020	2019	2018	2017	2016
Total 6% Debt Limit	8,693,696	7,676,151	7,202,768	\$5,930,341	\$6,134,244
Total net debt applicable to 6% limit	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Legal 6% debt margin	<u>\$ 8,693,696</u>	<u>\$ 7,676,151</u>	<u>\$ 7,202,768</u>	<u>\$ 5,930,341</u>	<u>\$ 6,134,244</u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

Source: The source of this information is the City's financial records.

Note: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding were secured by state shared revenues and sales tax rather than property taxes.

City of Cottonwood
Legal Debt Margin Information (Continued)
Last Ten Fiscal Years
(amounts expressed in thousands)

Total Legal Debt Margin Calculation for Fiscal Year 2020:

Net full cash assessed valuation	\$144,894,937
Debt limit (20%)	28,978,987
Debt application to limit	-
Legal debt margin	<u>\$173,873,924</u>

	2015	2014	2013	2012	2011
Total 20% Debt Limit	\$ 18,658,140	\$ 19,360,743	\$ 21,087,938	\$ 24,518,865	\$ 28,743,703
Total net debt applicable to 20% limit	0	0	0	0	0
Legal 20% debt margin	<u>\$ 18,658,140</u>	<u>\$ 19,360,743</u>	<u>\$ 21,087,938</u>	<u>\$ 24,518,865</u>	<u>\$ 28,743,703</u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%
	2015	2014	2013	2012	2011
Total 6% Debt Limit	\$ 5,597,442	\$ 5,808,223	\$ 6,326,381	\$ 7,355,660	\$ 8,623,111
Total net debt applicable to 6% limit	0	0	0	0	0
Legal 6% debt margin	<u>\$ 5,597,442</u>	<u>\$ 5,808,223</u>	<u>\$ 6,326,381</u>	<u>\$ 7,355,660</u>	<u>\$ 8,623,111</u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0.00%	0.00%	0.00%	0.00%	0.00%

Source: The source of this information is the City's financial records.

Note: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to the statutory limits listed above because the City's bonds outstanding were secured by state shared revenues and sales tax rather than property taxes.

City of Cottonwood
Pledged Revenue Coverage
Last Ten Fiscal Years

	Fiscal Year Ending				
	2020	2019	2018	2017	2016
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 8,386,920	\$ 8,120,944	\$ 8,174,427	\$ 7,608,838	\$ 7,819,312
Less: Operating expenses (2)	5,331,836	5,273,405	4,859,357	4,489,731	3,591,176
Net available revenue	3,055,084	2,847,539	3,315,070	3,119,107	4,228,136
Debt Service					
Principal	1,358,539	1,332,671	1,307,304	709,004	610,000
Interest	386,162	398,108	410,792	613,923	1,205,635
Total Annual Requirement	1,744,701	1,730,779	1,718,096	1,322,927	1,815,635
Estimated Coverage	1.75	1.65	1.93	2.36	2.33
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	18,803,787	16,736,469	14,949,167	14,070,668	15,808,100
Debt Service					
Principal	1,485,001	1,445,000	-	-	-
Interest	797,024	853,100	-	-	465,916
Total Annual Requirement	2,282,025	2,298,100	-	-	465,916
Estimated Coverage	8.24	7.28	N/A	N/A	33.93
General Arizona Development Authority Loan (3)					
Pledged revenues	-	-	-	-	15,808,100
Debt Service					
Principal	-	-	-	-	875,000
Interest	-	-	-	-	631,276
Total Annual Requirement	-	-	-	-	1,506,276
Estimated Coverage	N/A	N/A	N/A	N/A	10.49

Source: The source of this information is the City's financial records.

Notes: 1) Water charges and other includes charges for services, investment income, and miscellaneous revenues.

2) Operating expenses do not include depreciation and interest expense.

3) Information prior to 2008 is not available for the General Obligation and General Arizona Development Authority Loans.

4) Final payments on the general obligations bonds were made in fiscal year 2014.

City of Cottonwood
Pledged Revenue Coverage (Continued)
Last Ten Fiscal Years

	Fiscal Year Ending				
	2015	2014	2013	2012	2011
WIFA Loan/ Water Revenue Bonds:					
Water charges and other (1)	\$ 7,736,434	\$ 7,185,880	\$ 6,203,779	\$ 6,046,477	\$ 5,987,454
Less: Operating expenses (2)	3,169,489	3,754,462	3,855,986	3,627,892	3,109,285
Net available revenue	4,566,945	3,431,418	2,347,793	2,418,585	2,878,169
Debt Service					
Principal	1,000,000	975,000	965,000	920,000	920,000
Interest	1,464,618	1,482,773	1,559,310	1,592,304	1,561,373
Total Annual Requirement	2,464,618	2,457,773	2,524,310	2,512,304	2,481,373
Estimated Coverage	1.85	1.40	0.93	0.96	1.16
Excise Tax Revenue/General Obligation Bonds (3)(4)					
Pledged revenues	15,168,053	12,276,616	11,329,353	10,579,983	7,794,838
Debt Service					
Principal	-	150,000	140,000	135,000	135,000
Interest	-	4,150	12,175	23,500	23,500
Total Annual Requirement	-	154,150	152,175	158,500	158,500
Estimated Coverage	N/A	79.64	74.45	66.75	49.18
General Arizona Development Authority Loan (3)					
Pledged revenues	15,168,053	14,512,780	13,418,066	12,411,007	11,576,006
Debt Service					
Principal	840,000	1,165,000	1,110,000	1,070,000	1,070,000
Interest	683,076	724,776	749,675	977,703	842,577
Total Annual Requirement	1,523,076	1,889,776	1,859,675	2,047,703	1,912,577
Estimated Coverage	9.96	7.68	7.22	6.06	6.05

Source: The source of this information is the City's financial records.

Notes: 1) Water charges and other includes charges for services, investment income, and miscellaneous revenues.

2) Operating expenses do not include depreciation and interest expense.

3) Information prior to 2008 is not available for the General Obligation and General Arizona Development Authority Loans.

4) Final payments on the general obligations bonds were made in fiscal year 2014.

City of Cottonwood
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (2)	Personal Income (thousands of dollars)	Per Capita Personal Income (3)	School Enrollment	City of Cottonwood Unemployment Rates (4)
2020	12,253	N/A	N/A	3,211	9.20 2
2019	12,249	N/A	N/A	3,283	4.60 2
2018	12,133	9,352,066	\$ 40,312	3,487	4.40 2
2017	11,974	8,753,027	38,381	3,331	4.60 2
2016	11,818	8,199,948	36,353	3,060	5.40 2
2015	11,810	7,888,490	35,600	3,191	6.00 2
2014	11,532	7,482,253	34,259	3,351	7.10 2
2013	11,402	6,936,360	32,222	3,102	7.90 2
2012	11,313	6,623,513	31,174	2,889	8.20 2
2011	11,224	6,387,827	30,255	3,108	10.40 2
2010	11,238	6,141,108	29,088	2,722	9.70
2009	11,379	6,301,415	29,840	2,876	9.10
2008	11,399	6,501,350	30,781	3,369	5.10

Source: The City of Cottonwood, Arizona, the Economic Estimates Commissions, and the U.S. Department of Commerce, Bureau of Economic Analysis.

- 1) U.S. Census Bureau 2010 Census
- 2) Yavapai County Unemployment Rate
- 3) Arizona Office of Economic Opportunity

Note: Per capita personal income is based on the calendar year information ending during that fiscal year.

City of Cottonwood
Principal Employers
Current Fiscal Year and Nine Fiscal Years Ago

<u>Employer</u>	<u>2020</u>		<u>2011</u>	
	<u>Employees</u>	<u>Percentage of Total Area Employment</u>	<u>Employees</u>	<u>Percentage of Total Area Employment</u>
Verde Valley Medical Center	992	0.009 %	900	0.008 %
Wal-Mart	385	0.004	385	0.004
Cottonwood Oak Creek Schools	230	0.002	230	0.002
City of Cottonwood	212	0.002	187	0.002
Mingus Union High School	128	0.001	122	0.001
Fry's	118	0.001	118	0.001
Spectrum Healthcare	140	0.001	-	0.000
Home Depot	100	0.001	120	0.001
Safeway	120	0.001	95	0.001
Food City	52	0.000	37	0.000
Total	<u>2,477</u>	<u>%</u>	<u>2,194</u>	<u>2% %</u>
Total employment	<u><u>108470</u></u>		<u><u>95238</u></u>	

Source: The source of this information is the City's records.

Note: Total employment is shown for Yavapai County for 2020

City of Cottonwood
Full-Time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	Full-Time Equivalent Employees as of June 30									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
General Government										
Management Services	21.50	20.50	14.00	14.00	18.50	19.50	11.80	15.80	14.80	10.80
Finance	3.50	2.50	2.50	2.50	2.50	2.50	3.20	3.20	4.20	4.20
Planning	10.00	8.00	7.00	7.00	6.00	6.00	6.00	6.00	4.00	6.00
Building	-	5.50	5.50	5.50	5.50	-	-	6.50	-	-
Legal	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Court	4.60	5.00	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00
Total general government	40.60	42.50	35.00	35.00	38.50	34.00	28.00	38.50	30.00	28.00
Public Safety										
Police	60.00	62.00	61.00	64.00	63.50	57.50	57.50	48.50	49.50	46.50
Firefighters	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00	28.00	29.00
Total public safety	88.00	90.00	89.00	92.00	91.50	85.50	85.50	76.50	77.50	75.50
Public Works										
Engineering	3.00	3.00	3.00	3.00	5.00	4.00	5.00	5.00	6.00	6.00
Others	8.50	4.00	4.00	4.00	4.00	9.50	5.50	4.00	4.00	3.00
Streets	4.50	4.50	4.50	4.50	4.50	4.50	4.50	5.50	5.50	5.00
Total public works	16.00	11.50	11.50	11.50	13.50	18.00	15.00	14.50	15.50	14.00
Parks and Recreation										
Library	12.00	12.00	17.50	17.50	12.00	12.00	12.00	12.00	19.50	21.00
Water	9.00	9.00	9.00	9.00	9.00	9.00	9.00	11.00	11.00	10.00
Sewer	19.60	19.60	18.60	18.60	18.80	18.30	17.80	18.80	18.10	17.30
Transit	10.40	10.40	10.40	10.40	10.80	11.30	10.80	10.80	10.40	10.30
	18.00	14.00	14.00	17.00	14.00	13.00	12.00	11.00	-	11.00
	69.00	65.00	69.50	72.50	64.60	63.60	61.60	63.60	59.00	69.60
Total	213.60	209.00	205.00	211.00	208.10	201.10	190.10	193.10	182.00	187.10

Source: The source of this information is the City's Annual Budget.

City of Cottonwood
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	Fiscal Year Ended June 30,									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Police										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	26	30	34	32	32	28	26	27	20	30
Non-Patrol Units	8									
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Streets (miles)	67	67	52	52	62	63	63	63	63	63
Highways (Miles)	12	12	12	12	12	20	20	20	10	10
Streetlights	644	644	644	644	644	644	644	644	644	644
Traffic Signals	1	1	10	10	10	10	10	10	10	10
Recreation and culture										
Acreage	39	39	39	39	39	125	125	125	125	125
Playgrounds	2	2	2	2	2	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	8	8	8	8	8	8
Soccer/Football Fields	1	1	1	1	1	4	4	4	4	3
Community Centers	2	2	2	2	2	2	2	2	2	2
Water										
Water Mains (Miles)	189	189	187	186	186	94	94	94	94	92
Fire Hydrants	231	514	512	496	496	687	579	573	569	558
Storage Capacity (Thousands of gallons)	4450	4450	4450	4,450	4,450	3,800	3,800	3,800	3,208	3,208
Wastewater										
Sanitary Sewers (Miles)	62	62	61	60	60	51	50	50	49	49
Treatment Capacity (Millions of Gallons)	1.8	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transportation										
Buses	20	20	19	19	19	14	11	11	N/A	N/A

Source: The source of this information is the City's facilities records.

Note: N/A indicates that the information is not available.

City of Cottonwood
Operating Indicators by Function/Program
Last Ten Fiscal Years

<u>Function/Program</u>	Fiscal Year Ended June 30,				
	2020	2019	2018	2017	2016
General Government					
Building Permits Issued	498	590	479	373	379
Police					
Physical Arrests	1938	1776	1,921	756	1,703
Parking Violations	N/A	N/A	N/A	N/A	87
Traffic Violations	2056	2694	2,037	1,248	2,199
Calls for Service	13162	14468			
Fire					
Emergency Responses	3,361	3,448	3,655	3,626	3,455
Fires Extinguished	300	304	305	315	291
Inspections	1,558	1,398	1,306	1,543	1,649
Public Works					
Street Resurfacing (Miles)	6.54	0.74	1	N/A	0.8
Library					
Volumes in Collection	97,311	110,034	109,308	133,668	110,385
*Ebooks in Collection	28,647				
Volumes Borrowed	159,074	197,357	208,580	241,679	264,135
*Ebooks in Borrowed	24,807				
Water					
New Connections	67	86	91	N/A	74
Water Main Breaks	189	188	156	N/A	131
Average Daily Consumption (Thousands of Gallons)	1938	1821	1,880	N/A	2,800
Peak Daily Consumption (Thousands of Gallons)	2419	2326	2,470	N/A	3,200
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	876	1012	1,000	949	949
Transit					
Total Route Miles	460,351	455,476	451,022	435,228	416,116
Passengers	146,981	164,930	165,099	150,354	153,889

Source: The source of this information is the City's facilities records.

Notes: 1) N/A indicates the information was either not available or not applicable.

2) *The significant decline was due to the elimination of a portion of the City's transit.

City of Cottonwood
Operating Indicators by Function/Program (Continued)
Last Ten Fiscal Years

<u>Function/Program</u>	Fiscal Year Ended June 30,				
	2015	2014	2013	2012	2011
General Government					
Building Permits Issued	304	301	291	251	208
Police					
Physical Arrests	1,390	813	1,355	1,564	1,292
Parking Violations	177	118	108	75 #	127
Traffic Violations	1,450	1,827	2,152	1,850	1,607
Fire					
Emergency Responses	3,080	2,756	2,699	2,804	2,550
Fires Extinguished	245	241	208	247	242
Inspections	1,591	1,896	1,650	1,559	2,063
Public Works					
Street Resurfacing (Miles)	0.8	0.3	1.0	N/A	8.3
Library					
Volumes in Collection	137,444	106,713	104,052	96,673	102,015
Total Volumes Borrowed	283,432	228,870	218,391	245,786	246,786
Water					
New Connections	29	48	30	12	26
Water Main Breaks	120	183	125	150	237
Average Daily Consumption (Thousands of Gallons)	2,083	2,235	2,095	2,096	2,073
Peak Daily Consumption (Thousands of Gallons)	2,625	3,147	2,763	2,714	2,654
Wastewater					
Average Daily Sewage Treatment (Thousands of Gallons)	949	969	963	983	957
Transit					
Total Route Miles	266,688	321,387	267,256	N/A	94,804*
Passengers	149,492	122,874	117,519	N/A	2,009*

Source: The source of this information is the City's facilities records.

Notes: 1) N/A indicates the information was either not available or not applicable.

2) *The significant decline was due to the elimination of a portion of the City's transit.

City of Cottonwood
Comprehensive Annual Financial Report
For the Year Ended June 30, 2020

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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**

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
of the City of Cottonwood
Cottonwood, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 31, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

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To the Honorable Mayor and Members of the City Council
of the City of Cottonwood
Cottonwood, Arizona
Page 2

Purpose of this Report

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

The PwC Group, LLP

Phoenix, Arizona
December 31, 2020