CITY OF COTTONWOOD, ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

Councilmembers

James Chapman   Tim Elinski

Duane Kirby   Linda Norman   Terrance Pratt

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

Prepared by:
The Finance Department

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

Combining and Individual Fund Statements and Schedules

CITY OF COTTONWOOD, ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

TABLE OF CONTENTS

STATISTICAL SECTION

INTRODUCTORY SECTION

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December 11, 2008

Dear Citizens:

City staff spent their time working on numerous projects during fiscal year 2007-08. Although each City project is important, there are a few that emphasize the enormous efforts that were made this year by City staff and crews on behalf of the citizens of Cottonwood. There is no doubt that the largest undertaking is the 60,000+ square foot Recreational Center programmed to be completed in fiscal year 2009-10. This project finally came to fruition with acquisition of a Greater Arizona Development Authority (GADA) Loan in November 2007 to finance the project. This is an example of the City's commitment to balancing quality of life improvements with all the other municipal areas of responsibility within the community.

At the airport, the City acquired three acres of land along the southwest line of the airport for future airport development. This is in line with the Airport Master Plan, along with some security improvements. Some of those improvements completed this year were a perimeter security road surrounding the airport, and the lighting design at the municipal airport.

Cottonwood also continues to reflect its commitment to the environment by providing equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean ups. The City is also assisting several neighborhoods with clean up efforts and provides roll offs and staff to keep our neighborhoods clean.

The City's continued quality of life dedication is reflected in the completion of the new Little League Ball Park Complex at Riverfront Park. The price tag of these park improvements is slightly over $1.8 million, with assistance from a Heritage Grant totaling $550,197, and contributions in cash and in-kind local contributions. Such contributions were $870,000 from the City's General Fund, $126,000 from Yavapai County and the remainder of donations from local businesses.

Public safety reflects the City's commitment to make Cottonwood a better and safer place to live. Cottonwood continues to develop the use of volunteers in patrol, investigations and crisis intervention to support the community. Grants became a very important part of the Public Safety Department since the slowing economy makes continued upgrades increasingly difficult.

The Fire Department completed the refurbishing of their 1990 E-One pumper. Not to leave our small ones out, our four Certified Vehicle Child Restraint Seat Technicians installed 72 donated child restraint seats for those in need in our community and inspected 94 other vehicles for proper installation of child/infant seats.

816 North Main Street, Cottonwood, Arizona 86326 (928) 634-0060 Fax: (928) 634-3727
TDD #928-634-5526 website: www.ci.cottonwood.az.us

The Police Department obtained several grants to help curb underage drinking and DUI offenses. They also developed a Special Weapons and Tactical Team for emergencies using grant funds.

The Police Department's Communication Division completed its mobile data terminal system allowing all officers to be dispatched electronically. This system also connects them with nationwide criminal data making them more effective out on the field.

The community's streets are high on the priority list. Willard Street design was completed and the street construction continues with a scheduled opening in January 2009. The price tag is estimated at $910,000. This much needed project was funded in part by a $680,000 grant. The remaining $230,000 will come from the Highway User Revenue Fund (HURF).

Construction of the library expansion project is expected to be completed early the last quarter of the calendar year, with an opening in October 2009. Design work is progressing for the Multigenerational Recreation Center with ground breaking expected after the first of the 2009 calendar year.

The City staff is also revamping its five year Capital Improvements Plan. This five year plan is estimated to carry a price of over $100 million. Some of the future projects include such items as satellite water reclamation facilities, street and airport improvements, parks and urban trails, new buildings, and public safety vehicles and equipment. This plan is to be updated every year as part of the budget process. Of course the economy will dictate the City's ability to complete plans and projects on behalf of the residents of Cottonwood.

These projects are a minute illustration of the time and commitment provided by City staff and crews during this and every fiscal year. I would like to extend my appreciation to the City Council for its dedication and personally thank each member for the support they have given me in our collaborative effort to serve the residents of Cottonwood. To the members of the various boards and commissions, I extend my sincerest gratitude for valuable service to the community. Finally, I sincerely thank the City Manager, Doug Bartosh, department heads, and their staffs. They are without a doubt among the finest, most professional and dedicated individuals with whom I have had the privilege of working. I ardently look forward to the challenges that lie ahead. With the collaboration of our highly esteemed citizens, City Council, excellent staff, and dedicated volunteers we will continue to accomplish great things together in the coming year.

Respectfully,

Diane Joens
Mayor, City of Cottonwood

December 11, 2008

Honorable Mayor, City Council and Citizens of Cottonwood, Arizona:

We are pleased to submit to you the 2008 Comprehensive Annual Financial Report (CAFR) of the City of Cottonwood, Arizona (the City). The report was prepared by the City Manager and Finance Department. This letter of transmittal is designed to complement the management's discussion and analysis (MD&A) immediately following the independent auditor's report.

This report consists of management's representations concerning the finances of the City to its governing body, constituents, investors, and creditors. Copies of this report will be sent to elected officials, bond rating agencies, Nationally Recognized Municipal Securities Information Repositories, and other agencies that have expressed an interest in the City's financial matters. Copies of this financial report will also be placed in the City Clerk's office, City's Public Library and the City's website for use by the general public.

Management has full responsibility for the accuracy of the presented data as well as the completeness and fairness of the presentations including all disclosures. The City has established and maintains 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, Arizona's financial statements in conformity with generally accepted accounting principles (GAAP). We believe the data, as presented in this report, is accurate in all material respects and is presented in a manner which fairly sets forth the financial position and results of operations of the City on both a city-wide and fund basis. In addition, we believe that all disclosures necessary to assist the reader to gain an understanding of the City's financial activity and financial stability have been included.

The City's financial statements have been audited by the independent firm of Cronstrom, Osuch & Company, P.C., certified public accountants and their report included herein, has examined the basic financial statements and related notes. As stated in the independent auditor's report, the goal of the independent audit was to provide reasonable assurance that the City's financial statements for the fiscal year ended June 30, 2008 are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing 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 unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2008, are fairly presented in all material respects, in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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The independent audit of the financial statements of the City of Cottonwood, Arizona was part of a broader, federally mandated "Single Audit" 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 government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the City's separately issued Single Audit Report.

The Comprehensive Annual Financial Report is presented in three sections:

- The Introductory Section includes a list of principal officials, an organizational chart, the 2007 GFOA certificate, and this transmittal letter that highlights significant aspects of the City and particular financial issues.

- The Financial Section includes the independent auditor's report, Management's Discussion and Analysis, the basic financial statements (government-wide statements and fund financial statements), notes to the basic financial statements, Required Supplementary Information (RSI), and combining and individual fund statements and schedules.

- The Statistical Section includes exhibits and tables of unaudited data depicting the financial history of the City, as well as demographic and other miscellaneous statistics, generally presented on a multi-year basis.

THE FINANCIAL REPORTING ENTITY

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 near Interstate 17 on State Highways 89A and 260. The 2000 Census places the population at 9,179. Cottonwood is the retail and services center for upper Verde Valley area. More recent estimates show a population of 10,860 at July 1, 2005. The main industries are tourism, government 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 committee, commission, and board members, and appointing the positions of City Manager 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 administrative 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, weight room, and community parks. The City also operates and maintains a water/wastewater utility, a cemetery, and a municipal airport.

FINANCIAL CONTROLS

Internal Controls

As earlier noted, the management of the City of Cottonwood, Arizona is responsible for establishing and maintaining a system of internal control. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding;

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

The City's internal accounting controls are considered to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary Controls

The budget process is always a cyclical process. A "beginning point" is the preparation of the base budget by each department head. These budgets are based on expenditures to date and the previous year's experience. The department's 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 department's 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 for the fiscal year commencing the following July 1, to the City Council. The budget includes proposed expenditures and the means of financing them. The City is subject to the State of Arizona's Spending Limitation Law for Towns and Cities. This law does not permit the City to spend more than budgeted revenues plus the 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. The electorate, on May 17, 2005, authorized the City in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year for the next four fiscal years. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.

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. For the General Fund, this comparison is presented on page 38 as part of the basic financial statements. For governmental funds, other than the General Fund with appropriated annual budgets, this comparison is presented following the General Fund budget for all major special revenue funds and in the combining section for all other funds.

LOCAL ECONOMIC CONDITION AND OUTLOOK

Cottonwood continues to face many significant growth issues, but 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 2008 a successful year, and will provide for future success. Currently the City of Cottonwood, Arizona is taking measures to cope with decreasing revenues.

In order to keep basic services, the City has proposed a baseline budget with salary increases limited to annual merit. All vacancies needing to be filled will be delayed by three to six months. Some non-essential vacancies will be frozen indefinitely. The City will be closely monitoring its revenue sources and making adjustments accordingly.

Economic Outlook

Retail Sales. The City of Cottonwood, Arizona relies heavily on city sales tax. Overall, city sales tax revenues provide nearly 59% of the General Fund revenues. The city's sales tax rate is currently at 2.2% (split between General Fund 1.0%, Library Debt Service Fund .2% and Wastewater Debt Service Fund 1.0%), and the City also has a 3% Bed Tax (occupancy), instituted at mid year. The City has passed a increase in the sales tax to 3.0% to begin November 1, 2008. This is expected to help with some of the economic issues facing the City of Cottonwood, Arizona.

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. The revenue sources have begun to decline as the economy declined.

Highway User Revenue Fund (HURF). The fuel tax is placed in this fund to be used specifically for street maintenance and construction, as well as supporting our local transit system. In recent 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 2000).

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year

The following depicts the continued commitment of the City of Cottonwood, Arizona to make the community a better place to live. Fiscal year 2008 goals obtained are summarized within this list of accomplishments:

Physical Development:

- Finalized construction and installation of three (3) Little League field irrigation systems at Riverfront Park and installed all major electrical lines for service feed connections.
- Installed infrastructure/irrigation systems to the Cottonwood Dog Park, the Riverfront Park Football/Soccer field facility and the new 4th Softball field. Over 6 acres of irrigations systems installed.
- City staff crack-sealed 12 streets and all of the Cottonwood Ranch area.
- Completed the design and construction of Aspen Street from 11th Street to Main Street.
- Began construction of the library expansion project.
- Completion of the security upgrade project that added an automatic gate and card key system to the main gate.
- Completed installation of water sampling stations for Arizona Department of Environmental Quality mandated monthly bacteriological samples.
- Completed water line relocation for Highway 260 widening project.
- Installed reclaimed water standpipe sales automatic tracking and billing system.
- Selected a construction manager at risk to provide oversight of the construction phase of the Cottonwood Community Recreation Facility.

Community and Economic Development:

- Continued to provide equipment, labor and trash disposal to the Stewards of Public Lands for public lands clean ups and assisted several neighborhoods with clean ups.
- Continued the use of volunteers in patrol, investigations and crisis intervention in a better effort to support the community.
- Joined Northern Arizona Intergovernmental Public Transportation Authority (NAIPTA) to facilitate the movement to a regional transportation system.

Public Safety

- Received more than $100,000 from Homeland Security for Special Weapons and Tactics Team; $5,000 from the Automobile Theft Authority for VIN etching equipment and $15,000 from the Arizona Criminal Justice Commission and the Governor's Office of Highway safety, respectively, for DUI Saturation Patrols.
- Instituted proactive "alcohol sales to minors" investigations and "Warrant Hunt" emphasis by working with the court to reduce the number of outstanding warrants held by the City and County for Cottonwood residents.
- Added mobile data terminals in all patrol units to include CAD and report writing capabilities.
- Three firefighters completed paramedic training - now all full-time shift personnel are certified paramedics.
- Installed 72 child restraint systems and inspected 94. Four staff are now Certified Child Seat Technicians.

General

- Continued to update the City's Website.
- Received the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 17th straight year.
- Submitted the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 18th year.
- Established a workplace influenza pandemic plan.
- Implemented new investment policy and transferred funds to Davidson Fixed Income and Stone & Youngberg to be invested.
- Developed a new cellular phone policy which provides a monthly allocation to employees requiring cellular access.
- Participated in the Regional Housing Task Force and a variety of other regional planning efforts (trails, transportation study, etc)

For the Future

The following goals have been identified and included within the budget. These goals, established during budget planning sessions with the City Council, are integrated into departmental work plans for fiscal year 2008-09.

Physical Development:

- Continue constructing drainage improvements city wide.
- Bid and construction of W. Mingus Avenue Reconstruction project.
- Complete the expansion of the Public Library.
- Complete design work and begin construction of the Multi Generation Recreational Center.
- Upgrade of reclaimed wastewater collection system.
- Construction of Highway 260 Master Plan.
- Complete the installation of the arsenic remediation equipment mandated by the United States Environmental Protection Agency (USEPA).
- Conversion Clemenceau water system to gravity supply from the Well 5 reservoir.
- Construct a new water line from Well 8/9 to Cottonwood Street as part of the Willard Extension Project.

Community and Economic Development

- Complete remaining CDBG grants.
- Hire an Economic Development Planner to seek opportunities for the community.

Public Safety

- Continue the vehicle replacement program to change out many of the Police Department's older police cruisers.
- Continue efforts to create a satellite family advocacy center and a regional communications and emergency operations center.
- Educate the public and enforce leash laws.
- Improve Communications Specialist retention through training and recognition.
- Acquire land for future use by the City for expansion of the public safety facility.
- Develop and implement a pre-hospital quality improvement program for the EMS delivery system.
- Implement fire hydrant inventory, location, assessment and flow project in cooperation with the Water Utility Department.
- Conduct an exercise of our Emergency Operations Center, implementing the new N.I.M.S. operating criteria

General

- Continue to update the City's Website.
- Complete a cost of services analysis related to development.
- Review key performance indicators, i.e.; projected succession requirements, turn-over rate, reason for turnover, time to fill vacancies, cost for employment advertisement, worker's compensation incidents, and liability claims.
- Receive the Government Finance Officers Association's (GFOA) award for the City's Comprehensive Annual Financial Report for the 18th straight year.
- Submit the City's Comprehensive Annual Financial Report to the Government Finance Officers Association's (GFOA) to compete for the Certificate of Achievement in Excellence in Financial Reporting for the 19th year.

OTHER MATTERS

Employee Pension Plans

The City maintains two employee pension plans. The general employee plan is administered through Arizona State Retirement System (ASRS). The Arizona Public Safety Personnel Retirement System administers the public safety pension plans. Both the employee and the employer make contributions directly to these systems. Financial information about these plans can be found in Note 4.D. of the notes to the basic financial statements included in the financial section of this report.

Cash Management

The Finance Director manages the City's investment portfolio with the assistance of external investment advisement and ensures compliance with the City's investment policy. The City's investment policy is to invest public funds with maximum security in a manner that will provide the highest return while meeting the daily cash flow demands of the City and conforming to all applicable State statutes. The primary objectives, in priority order, are safety of principal, liquidity, and attaining a market rate of return.

The City is permitted to invest in certificates of deposit, interest bearing savings accounts in banks, and the State of Arizona's Local Government Investment Pool.

Temporary idle cash during the year was invested in the State Treasurer's Investment Pool. For further information on the City's investments, please refer to Note 3.A.l. of the notes to the basic financial statements.

Debt Administration

The following table is a summary of the City's outstanding debt at June 30, 2008 of $58.1 million.

Purpose of debt	Outstanding Balance	Annual Debt Service
Water and Wastewater		
Water Utility - Municipal Facilities Revenue Bonds 2004	$ 12,685,000	$ 908,784
Water Utility - Municipal Facilities Revenue Bonds 2006	23,695,000	1,388,320
Total Water and Wastewater	$ 36,380,000	$ 2,297,104
Library		
General Obligation Bonds	$ 350,000	$ 79,245
FmHA Library Refunding Bonds	320,000	73,750
Total Library	$ 670,000	$ 152,995
Other		
Railroad Wash GADA	$ 425,000	$ 97,802
Public Safety Building GADA	1,190,000	265,975
Library Expansion, Recreation and Public Safety GADA	19,445,000	1,127,468
Total Other	21,060,000	1,491,245
Total Long-term Debt	$ 58,110,000	$ 3,941,344

Risk Management

The City is exposed to various risks of loss related to public and property liability and worker's compensation. Public liability includes public officials' errors and omissions, automobile and general liability. The City participates in the Arizona Municipal Risk Retention Pool. The policy insures up to $2,000,000 per incident plus excess liability of up to $8,000,000. Coverage is provided on a claim made basis with a $25,000 deductible. Auto is on an occurrence basis with a $1,000 deductible on liability.

The City's liability insurance program and worker's compensation claims are reviewed by the risk manager. Both are administered through the Arizona Municipal Risk Retention Pool.

The City of Cottonwood, Arizona maintains an aggressive safety program, which promotes employee safety on the job and focuses on risk control techniques designed to minimize accident related losses.

OTHER INFORMATION

Award

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Cottonwood, Arizona for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. This is the 17th consecutive year that the City of Cottonwood, Arizona has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily read and efficiently organized comprehensive annual financial report. That report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

Acknowledgments

The preparation of this Comprehensive Annual Financial Report could not have been accomplished without the dedication of City Manager, 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.

Sincerely,

Doug Bartosh
City Manager

Jesus R. Rodriguez
Finance Director

CITY OF COTTONWOOD, ARIZONA
LIST OF PRINCIPAL OFFICIALS

Mayor
Diane Joens

Vice Mayor
Karen Pfeifer

Councilmembers

James Chapman

Tim Elinski

Duane Kirby

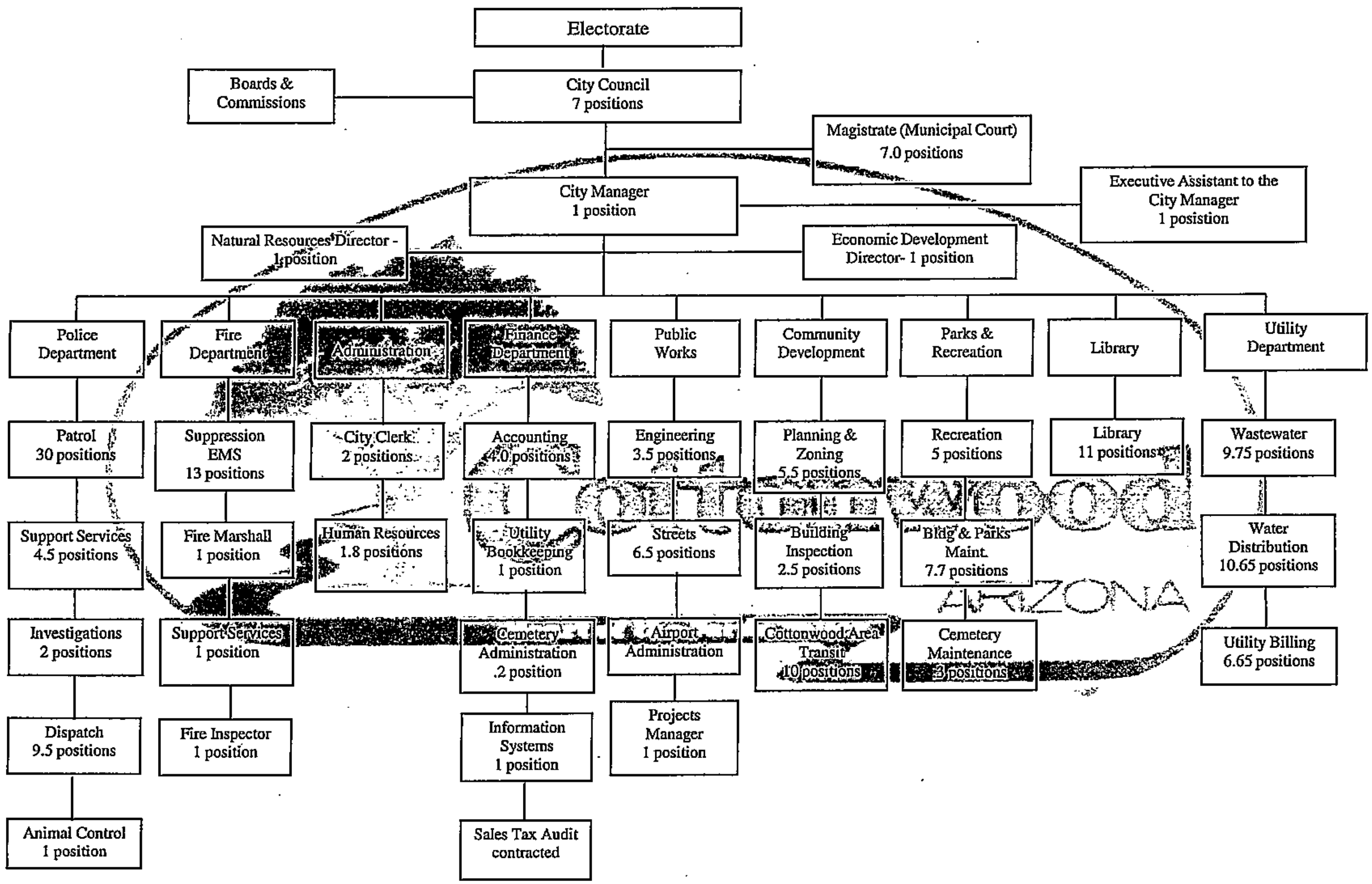
Linda Norman

Terrance Pratt

City Manager
Doug Bartosh

Finance Director
Jesus R. Rodriguez, CGFM

City of Cottonwood, Arizona
Organizational Chart
Fiscal Year Ended June 30, 2008



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, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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FINANCIAL SECTION

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Cronstrom
Osuch & Company
Certified Public Accountants
A PROFESSIONAL CORPORATION

SANDRA L. CRONSTROM, CPA
DENNIS J. OSUCH, CPA
A. CARTER SMITHERMAN, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottonwood, Arizona as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Highway User Revenue Fund (HURF) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A prior period adjustment was recorded in Note 2.A. to report an investment that was previously not reported in the City's records in error.

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The management's discussion and analysis on pages 21 - 30 and the Public Safety Personnel Retirement System Schedule of Funding Progress on page 76 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

December 11, 2008

Management's Discussion and Analysis

We (the City of Cottonwood, Arizona (City)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2008. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if the City's financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letters of transmittal, which can be found on pages 1-12 of this report. When referring to prior year data in this analysis we included information from last years' audited financial reports.

Financial Highlights

- The assets of the City of Cottonwood, Arizona exceeded its liabilities at the close of the most recent fiscal year by $69,012,962 (net assets). Of this amount $23,918,556 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Cottonwood, Arizona's governmental funds reported combined ending fund balances of $40,284,829, an increase of $20,010,084 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $4,594,856 or 39 percent of total General Fund expenditures.
- General fund revenues (on a budgetary basis) exceeded budgeted revenues by $786,977 for fiscal year 2008. Additionally, budgetary basis expenditures were 87% of ($1,725,803 or 13% less than) the final budget in the General Fund.
- General Fund revenues exceeded expenditures by $2,814,410; a positive variance of $2,512,780 from the final budget.
- The City includes one separate legal entity in its report - a Municipal Property Corporation. Although legally separate, the "component unit" is important because the City is financially accountable for it. A description of the Cottonwood Municipal Property Corporation is available in Note 1 on page 47. Separate financial statements are not prepared for this entity.
- During the fiscal year, the City issued $19,935,000 in Greater Arizona Development Authority's loans to finance construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park.

Overview of the Financial Statements

The financial section of the Comprehensive Annual Financial Report (CAFR) for the City of Cottonwood, Arizona consists of this discussion and analysis, the independent auditor's report, the basic financial statement and the required supplementary schedules presented after the basic financial statements. The basic financial statements include the government-wide financial statements, fund financial statements, including the budgetary statements for the General Fund and major special revenue funds, and notes 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 of Cottonwood, Arizona's finances, in a manner similar to private-sector business.

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

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

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

The government-wide financial statements can be found on pages 32 - 33 of this report.

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

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

The basic governmental fund financial statements can be found on pages 34 - 39 of this report.

Proprietary funds. The City of Cottonwood, Arizona maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Cottonwood, Arizona uses enterprise funds to account for its operations of the sewer plant and water system. *Internal service funds* are an accounting device used to accumulate and allocate costs among the City of Cottonwood, Arizona's various functions. The City of Cottonwood, Arizona uses an internal service fund to account for some employee benefits, including flexible spending accounts and dependent care reimbursement for certain employees and their dependents. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund and Water Fund, which are considered to be major funds of the City. The internal service fund is presented in the proprietary fund financial statements as a separate column.

The basic proprietary fund financial statements can be found on pages 40 - 43 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Cottonwood, Arizona's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 44 - 45 of this report.

Notes to the basic financial statements. The notes to the basic financial statements (pages 47 - 73) provide additional information that is essential to obtain a full understanding of the data provided in the government-wide and fund financial statements and should be read in conjunction with the financial statements.

Required supplementary information other than MD&A. Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information following the notes to the basic financial statements. The City has chosen to present these budgetary statements as part of the basic financial statements. Additionally, governments are required to disclose certain information about employee pension funds. The City has disclosed this information in Note 4.D. to the basic financial statements.

Government-Wide Financial Analysis

Net assets may serve over time as useful indicators of a government's financial position. The following table reflects the condensed Statement of Net Assets of the City for June 30, 2008 showing that assets exceeded liabilities by $69,012,962.

City of Cottonwood, Arizona
Condensed Statement of Net Assets
June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007 (restated)	2008	2007 (restated)
Assets						
Current and other assets	$ 44,092,401	$ 24,533,325	$ 31,619,430	$ 31,617,496	$ 75,711,831	$ 56,150,821
Capital assets						
Non-depreciable	4,658,455	3,144,771	4,378,989	3,983,138	9,037,444	7,127,909
Depreciable (net)	20,404,665	18,685,860	29,973,410	30,707,099	50,378,075	49,392,959
Total assets	69,155,521	46,363,956	65,971,829	66,307,733	135,127,350	112,671,689
Liabilities						
Other liabilities	3,192,539	4,023,768	1,847,250	1,766,842	5,039,789	5,790,610
Noncurrent liabilities						
Due within one year	1,843,538	850,850	888,871	636,250	2,732,409	1,487,100
Due in more than one year	22,275,890	3,396,985	36,066,300	36,957,486	58,342,190	40,354,471
Total liabilities	27,311,967	8,271,603	38,802,421	39,360,578	66,114,388	47,632,181
Net assets						
Invested in capital assets, net of related debt	19,879,529	15,984,073	9,411,516	6,664,535	29,291,045	22,648,608
Restricted	15,803,361	17,373,701	-	-	15,803,361	17,373,701
Unrestricted	6,160,664	4,734,579	17,757,892	20,282,620	23,918,556	25,017,199
Total net assets	$ 41,843,554	$ 38,092,353	$ 27,169,408	$ 26,947,155	$ 69,012,962	$ 65,039,508

Net assets consist of three components. The City of Cottonwood, Arizona's investment in capital assets (e.g., land, buildings, infrastructure, wastewater system, and vehicles, machinery and equipment), less any outstanding related debt used to acquire those assets reflects 42% of total net assets. The City of Cottonwood, Arizona uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cottonwood, Arizona's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Cottonwood, Arizona's net assets (23%) represents resources that are subject to external restrictions. The remaining balance of unrestricted net assets ($23,918,556) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Cottonwood, Arizona reported positive balances in all three categories of net assets for the government as a whole. The net assets invested in capital assets, net of related debt increased in the governmental activities due to increased construction in progress, the acquisition of several police vehicles and fire trucks, as well as a reduction in the outstanding debt used to acquire those assets. The business-type activities' net assets invested in capital assets, net of related debt increased due to improvements to the water distribution system, construction in progress and a reduction in the outstanding debt being offset by the current year depreciation expense.

Restricted net assets in the governmental activities decreased largely due to more resources allocated towards the repayment of debt. The unrestricted net assets increased for the governmental activities and decreased for the business-type activities. Components of the increase and decrease are discussed further following the table below.

City of Cottonwood, Arizona
Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Totals	
	2008	2007	2008	2007 (restated)	2008	2007
Revenues						
Program revenues						
Fees, fines and charges for services	$ 1,752,198	$ 1,530,248	$ 7,040,612	$ 7,503,225	$ 8,792,810	$ 9,033,473
Operating grants and contributions	1,563,547	1,680,043	-	-	1,563,547	1,680,043
Capital grants and contributions	766,878	497,116	-	-	766,878	497,116
General revenues						
Local taxes	10,328,801	10,469,632	-	-	10,328,801	10,469,632
Impact fees	-	-	148,861	123,038	148,861	123,038
State shared revenues	3,194,334	2,956,203	-	-	3,194,334	2,956,203
Investment earnings	1,341,445	1,028,744	951,471	732,742	2,292,916	1,761,486
Total revenues	18,947,203	18,161,986	8,140,944	8,359,005	27,088,147	26,520,991
Expenses						
General government	5,431,120	4,158,178	-	-	5,431,120	4,158,178
Public safety	5,823,848	5,340,930	-	-	5,823,848	5,340,930
Highways and streets	1,690,237	1,919,302	-	-	1,690,237	1,919,302
Culture and recreation	1,461,968	1,570,172	-	-	1,461,968	1,570,172
Redevelopment and housing	5,993	7,726	-	-	5,993	7,726
Interest on long-term debt	782,836	453,033	-	-	782,836	453,033
Sewer	-	-	2,111,798	1,741,877	2,111,798	1,741,877
Water	-	-	5,806,893	5,357,102	5,806,893	5,357,102
Total expenses	15,196,002	13,449,341	7,918,691	7,098,979	23,114,693	20,548,320
Increase (decrease) in net assets before transfers	3,751,201	4,712,645	222,253	1,260,026	3,973,454	5,972,671
Transfers	-	(744,050)	-	744,050	-	-
Change in net assets	3,751,201	3,968,595	222,253	2,004,076	3,973,454	5,972,671
Net assets, beginning of year (as restated)	38,092,353	34,123,758	26,947,155	24,943,079	65,039,508	59,066,837
Net assets, end of year	$ 41,843,554	$ 38,092,353	$ 27,169,408	$ 26,947,155	$ 69,012,962	$ 65,039,508

Governmental activities. Net assets of the governmental activities increased $3.8 million dollars. The key factor accounting for this increase is the City's emphasis on sound financial management by controlling spending and seeking new funding sources, as well as maximizing the City's current funding sources. Governmental expenses generally increased over the prior fiscal year as a result of increased operating costs; however, redevelopment and housing decreased by approximately $300,000. In the prior year, the City received a community development grant for the operations of the redevelopment and housing program. The program was substantially completed in the prior year and; therefore, the expenses were reduced in the current year.

Governmental revenues remained relatively unchanged over the prior year. The most significant change was a $313,000 increase in interest revenue and a $270,000 increase in capital grants and contributions. The increase in interest revenue was due to increased cash on-hand through the year and the increase in capital grants was due to an increase of $126,000 in a grant through the Federal Aviation Administration (FAA) and $153,000 in a grant through the Arizona Department of Transportation (ADOT). The FAA grant was used for airport improvements and the ADOT grant was used for street improvements.

Business-type activities. Net assets of the business-type activities increased $0.2 million. The increase was largely due to the current fee structure of the water operations exceeding the cost of operating that facility. Expenses for the operations of water are expected to increase in future years due to required repairs and maintenance on the newly acquired water companies, as well as depreciation on the capital improvements for the acquired water companies.

Financial Analysis of the City's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, 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. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund. The General Fund, Highway User Special Revenue Fund, Debt Service Fund and Capital Projects Fund are considered to be major funds. The funds are restricted to the purpose of the individual funds, but are unrestricted for the given fund type. Of the $40,284,829 reported as fund balance, $316,539 is reserved for specific uses.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of $40,284,829, an increase of $20,010,084 in comparison with the prior year. Approximately 11% of this total amount ($4,602,027) constitutes General Fund balance, which is available for contribution to the designated, undesignated and reserved fund balance. At fiscal year-end 2007-08 fund balances were as follows:

Fund	Balance	Increase (Decrease) From 2006-07
General Fund	$ 4,602,027	$ 1,853,632
Highway User Revenue Fund (HURF)	1,608,103	1,002,237
Debt Service Fund	1,637,437	(13,873,428)
Capital Projects Fund	32,170,394	30,955,888
Nonmajor Governmental Funds	266,868	71,755

The General Fund is the chief operating fund of the City of Cottonwood, Arizona. As a measure of the General Fund's liquidity, it may be useful to compare both General Fund balance and total fund balance to total fund expenditures. General Fund balance represents 39% of total General Fund expenditures, while total fund balance represents 199% of total fund expenditures.

The more significant changes in fund balance were in the General, HURF, Debt Service and Capital Projects Funds. The General Fund increased $2.8 million (after transfers and capital leases). The most significant factor affecting the General Fund increase were the formula adjustment to sales tax and the reduction in spending implemented to help weather the bad economy.

The HURF Fund increase is mostly due to a formula adjustment to sales tax allocation, providing increased support to this fund.

The Debt Service Fund decreased largely due to a transfer of accumulated funds no longer to be used for debt service.

The Capital Projects Fund increase is due to loan proceeds from the Greater Arizona Development Authority (GADA) that was obtained in November 2007. These funds will be used for financing construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park. The increase was also due to a $13.9 million transfer from the Debt Service Fund previously discussed.

General Fund budgetary highlights

During the fiscal year, the City amended its original budget by $3,629,490 in the General Fund. The amendment included changes to revenues, expenditures and fund balance. Significant differences between the original budget and the final amended budget were as follows:

- The most significant expenditure budget amendment was the reduction of the City Council's budget by over $3.0 million. The difference between the original and final amended budget is due to contingency reserves reflected in the original budget that were not included in the revised budget.

Projected revenues were within the budget by $786,977.

Actual expenditures were less than the budget by $1,725,803 largely due to increased awareness of the current economic situation and public safety holding the line on expenditures.

Capital Asset and Debt Administration

The City's capital assets for its governmental activities as of June 30, 2008 totaled $25,063,120 (net of accumulated depreciation), a net increase of 14.8% from the prior year. Business-type activities capital assets amounted to $34,352,399 (net of accumulated depreciation), a decrease from the prior year of 1.0%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures. See Note 3.A.4. in the notes to the basic financial statements for further information regarding capital assets.

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

- For the governmental activities, $2.1 million was added to construction in progress for the expansion of library. The construction is still in progress.
- For the governmental activities, $517,000 in additions to the Riverfront Park project, which was completed in the current year at a total cost of $1.9 million.
- For the governmental activities, $640,000 in additions to construction in progress for the recreation center. The construction is still in progress.
- For the governmental activities, $1.2 million in various software, equipment, vehicles and furniture acquisitions.
- For the business-type activities, $190,000 in additions to construction in progress for the master planned sewer development project, currently in progress and $205,000 in additions for the arsenic mitigation project currently in progress in the Water Fund.
- For the business-type activities, $360,000 in additions to the water distribution system.

The following table provides a breakdown of the capital assets of the City at June 30, 2008 and 2007.

City of Cottonwood, Arizona
Capital Assets at June 30, 2008 and June 30, 2007
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 1,422,270	$ 1,422,270	$ 3,239,645	$ 3,239,645	$ 4,661,915	$ 4,661,915
Construction in progress	3,236,185	1,722,501	1,139,344	743,493	4,375,529	2,465,994
Water distribution system	-	-	14,030,339	14,484,562	14,030,339	14,484,562
Wastewater system	-	-	13,379,985	13,625,766	13,379,985	13,625,766
Buildings and improvements	8,946,495	7,297,457	2,304,141	2,408,299	11,250,636	9,705,756
Infrastructure	8,318,367	8,647,916	-	-	8,318,367	8,647,916
Vehicles, machinery and equipment	3,139,803	2,740,487	258,945	188,472	3,398,748	2,928,959
	$25,063,120	$21,830,631	$34,352,399	$34,690,237	$59,415,519	$56,520,868

Long-term debt

At the end of the current fiscal year, the City of Cottonwood, Arizona had total bonded debt outstanding of $670,000 in the governmental activities and $36,920,574 in the business-type activities (net of the bond premium). The City issued $19,935,000 in Greater Arizona Development Authority debt to be used for construction of a recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park.

The State imposes certain debt limitations on the City of six percent (6%) and twenty percent (20%) of the outstanding assessed valuation of the City. The City's available debt margin at June 30, 2008 is $7,257,196 in the 6% capacity and $24,190,654 in the 20% capacity. 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 debt limitations and capacities may be found in the statistical section of this report (page 104).

The City also has $21,060,000 in loans payable and $1,418,083 in capital leases outstanding at June 30, 2008 in the governmental activities.

The following schedule shows the outstanding debt of the City (both current and long-term) as of June 30, 2008 and 2007. Further detail on the City's outstanding debt may be found in Note 3.D. on pages 65 - 68.

City of Cottonwood, Arizona
Outstanding Debt at June 30, 2008 and 2007

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	$ 670,000	$ 780,000	$ -	$ -	$ 670,000	$ 780,000
Revenue bonds	-	-	36,920,574	37,565,933	36,920,574	37,565,933
Loans payable	21,392,185	1,890,000	-	-	21,392,185	1,890,000
Capital leases	1,418,083	951,558	-	-	1,418,083	951,558
Compensated absences	639,160	626,277	34,597	27,803	673,757	654,080
	$ 24,119,428	$ 4,247,835	$ 36,955,171	$ 37,593,736	$ 61,074,599	$ 41,841,571

Economic Factors and Next Year's Budgets and Rates

The City has recently acquired four water companies. Several of the water companies require additional improvements and will require significantly more costs to operate. In addition, the City expects future growth, which will require additional infrastructure and City services. These factors were considered in preparing the 2009 budget.

Financial Contact

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

City of Cottonwood, Arizona
Accounting Department
816 North Main Street
Cottonwood, Arizona 86326
(928) 634-0060

Basic Financial Statements

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Totals
Assets			
Cash and cash equivalents	$ 41,147,010	$ 16,394,925	$ 57,541,935
Cash with paying agent	450,885	-	450,885
Receivables			
Accounts receivable	164,822	657,102	821,924
Taxes receivable	1,359,634	-	1,359,634
Intergovernmental receivable	527,762	141,737	669,499
Notes receivable	21,475	6,668,056	6,689,531
Inventories	30,879	-	30,879
Prepaid items	6,474	-	6,474
Deferred charges	383,460	1,834,041	2,217,501
Restricted assets	-	4,587,556	4,587,556
Other assets	-	1,336,013	1,336,013
Capital assets			
Non-depreciable	4,658,455	4,378,989	9,037,444
Depreciable (net)	20,404,665	29,973,410	50,378,075
Total assets	69,155,521	65,971,829	135,127,350
Liabilities			
Accounts payable	1,340,521	148,079	1,488,600
Accrued wages and benefits	125,078	28,925	154,003
Interest payable	815,673	836,052	1,651,725
Intergovernmental payable	257	-	257
Unearned revenue	21,475	-	21,475
Customer deposits payable	14,535	209,194	223,729
Matured debt principal payable	875,000	625,000	1,500,000
Noncurrent liabilities			
Due within one year	1,843,538	888,871	2,732,409
Due in more than one year	22,275,890	36,066,300	58,342,190
Total liabilities	27,311,967	38,802,421	66,114,388
Net assets			
Invested in capital assets, net of related debt	19,879,529	9,411,516	29,291,045
Restricted for			
Highways and streets	1,608,103	-	1,608,103
Debt service	630,471	-	630,471
Capital outlay	13,564,787	-	13,564,787
Unrestricted	6,160,664	17,757,892	23,918,556
Total net assets	$ 41,843,554	$ 27,169,408	$ 69,012,962

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs							
Governmental activities							
General government	$ 5,431,120	$ 1,272,614	$ 80,431	$ 229,907	$ (3,848,168)		$ (3,848,168)
Public safety	5,823,848	163,902	231,256	3,399	(5,425,291)		(5,425,291)
Highways and streets	1,690,237	106,112	1,072,161	533,572	21,608		21,608
Culture and recreation	1,461,968	209,570	177,524	-	(1,074,874)		(1,074,874)
Redevelopment and housing	5,993	-	2,175	-	(3,818)		(3,818)
Interest on long-term debt	782,836	-	-	-	(782,836)		(782,836)
Total governmental activities	15,196,002	1,752,198	1,563,547	766,878	(11,113,379)		(11,113,379)
Business-type activities							
Sewer	2,111,798	1,556,314	-	-		$ (555,484)	(555,484)
Water	5,806,893	5,484,298	-	-		(322,595)	(322,595)
Total business-type activities	7,918,691	7,040,612	-	-		(878,079)	(878,079)
Totals	$ 23,114,693	$ 8,792,810	$ 1,563,547	$ 766,878	(11,113,379)	(878,079)	(11,991,458)
General revenues							
Taxes							
Sales taxes					10,102,433	-	10,102,433
Franchise taxes					226,368	-	226,368
Impact fees					-	148,861	148,861
State urban revenue sharing - unrestricted					1,528,328	-	1,528,328
State sales tax revenue sharing - unrestricted					998,077	-	998,077
Auto lieu tax revenue sharing - unrestricted					667,929	-	667,929
Investment earnings					1,341,445	951,471	2,292,916
Total general revenues					14,864,580	1,100,332	15,964,912
Change in net assets					3,751,201	222,253	3,973,454
Net assets, beginning of year (as restated)					38,092,353	26,947,155	65,039,508
Net assets, end of year					$ 41,843,554	$ 27,169,408	$ 69,012,962

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Assets						
Cash and cash equivalents	$ 4,435,231	$ 1,242,820	$ 2,690,683	$ 32,329,401	$ 217,302	$ 40,915,437
Cash with paying agent	-	-	450,885	-	-	450,885
Receivables						
Accounts receivable	123,254	-	31,207	-	10,361	164,822
Taxes receivable	1,287,034	-	61,320	-	11,280	1,359,634
Intergovernmental receivable	111,895	387,814	-	-	28,053	527,762
Notes receivable	21,475	-	-	-	-	21,475
Due from other funds	7,465	-	-	-	-	7,465
Inventories	697	7,332	-	-	22,850	30,879
Prepaid items	6,474	-	-	-	-	6,474
Total assets	$ 5,993,525	$ 1,637,966	$ 3,234,095	$ 32,329,401	$ 289,846	$ 43,484,833
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 1,272,304	$ -	$ -	$ 64,992	$ 3,225	$ 1,340,521
Accrued wages and benefits	97,462	16,146	-	-	11,470	125,078
Interest payable	-	-	721,658	94,015	-	815,673
Intergovernmental payable	257	-	-	-	-	257
Due to other funds	-	-	-	-	7,465	7,465
Unearned revenue	21,475	-	-	-	-	21,475
Customer deposits payable	-	13,717	-	-	818	14,535
Matured debt principal payable	-	-	875,000	-	-	875,000
Total liabilities	1,391,498	29,863	1,596,658	159,007	22,978	3,200,004
Fund balances						
Reserved for inventories	697	7,332	-	-	-	8,029
Reserved for prepaid items	6,474	-	-	-	-	6,474
Reserved for future debt service	-	-	302,036	-	-	302,036
Unreserved	4,594,856	1,600,771	1,335,401	32,170,394	-	39,701,422
Unreserved, reported in nonmajor:						
Special revenue funds	-	-	-	-	266,868	266,868
Total fund balances	4,602,027	1,608,103	1,637,437	32,170,394	266,868	40,284,829
Total liabilities and fund balances	$ 5,993,525	$ 1,637,966	$ 3,234,095	$ 32,329,401	$ 289,846	$ 43,484,833

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Fund balances - total governmental funds	$	40,284,829
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets		40,386,250
Less accumulated depreciation		(15,323,130)
Capital assets used in governmental activities		25,063,120
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
General obligation bonds		(670,000)
Loans payable		(21,060,000)
Premium		(332,185)
Capital leases		(1,418,083)
Deferred charges		383,460
Compensated absences		(639,160)
Long-term liabilities not due and payable in the current period		(23,735,968)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		231,573
Net assets of governmental activities	$	41,843,554

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	General	HURF	Debt Service	Capital Projects	Nonmajor Governmental Funds	Totals
Revenues						
Taxes						
Sales taxes	$ 8,658,845	$ 1,289,558	$ 154,030	$ -	$ -	$ 10,102,433
Franchise taxes	226,368	-	-	-	-	226,368
Intergovernmental	3,488,097	1,567,288	-	-	451,051	5,506,436
Fines and forfeitures	201,539	-	-	-	-	201,539
Licenses and permits	406,296	-	-	-	-	406,296
Charges for services	893,288	137,024	-	-	140,592	1,170,904
Rents and royalties	11,278	-	-	-	88,376	99,654
Contributions and donations	4,021	-	-	-	14,302	18,323
Investment earnings	715,357	32,525	510,581	69,499	3,053	1,331,015
Other	76,068	33,581	-	-	19,610	129,259
Total Revenues	14,681,157	3,059,976	664,611	69,499	716,984	19,192,227
Expenditures						
Current						
General government	4,682,560	-	-	-	271,416	4,953,976
Public safety	6,188,641	-	-	-	-	6,188,641
Highways and streets	-	2,057,739	-	-	-	2,057,739
Culture and recreation	995,546	-	-	-	844,283	1,839,829
Redevelopment and housing	-	-	-	2,967	-	2,967
Debt service						
Principal retirement	-	-	875,000	-	-	875,000
Interest on long-term debt	-	-	780,374	-	-	780,374
Issuance costs	-	-	-	401,879	-	401,879
Capital outlay	-	-	-	2,881,538	220,092	3,101,630
Total Expenditures	11,866,747	2,057,739	1,655,374	3,286,384	1,335,791	20,202,035
Excess (deficiency) of revenues over expenditures	2,814,410	1,002,237	(990,763)	(3,216,885)	(618,807)	(1,009,808)
Other financing sources (uses)						
Transfers in	23,490	-	1,006,966	13,889,631	719,466	15,639,553
Transfers out	(1,721,018)	-	(13,889,631)	-	(28,904)	(15,639,553)
Issuance of long-term debt	-	-	-	19,935,000	-	19,935,000
Premium on the issuance of long-term debt	-	-	-	348,142	-	348,142
Proceeds from capital leases	736,750	-	-	-	-	736,750
Total other financing sources (uses)	(960,778)	-	(12,882,665)	34,172,773	690,562	21,019,892
Net change in fund balances	1,853,632	1,002,237	(13,873,428)	30,955,888	71,755	20,010,084
Fund balances, beginning of year	2,748,395	605,866	15,510,865	1,214,506	195,113	20,274,745
Fund balances, end of year	$ 4,602,027	$ 1,608,103	$ 1,637,437	$ 32,170,394	$ 266,868	$ 40,284,829

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	$	20,010,084
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets		5,061,717
Less current year depreciation		(1,786,050)
Excess capital expenditures over depreciation		3,275,667
The statement of activities reports losses arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets.		(43,178)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Principal payments on long-term debt		1,145,225
Issuance costs		401,879
Proceeds of debt issuance		(19,935,000)
Premium		(348,142)
Amortization of deferred amount on the premium		15,957
Amortization of issuance costs		(18,419)
Proceeds of capital leases		(736,750)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
Net increase in compensated absences		(12,883)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenues of the internal service fund are reported with governmental activities.		(3,239)
Change in net assets of governmental activities	$	3,751,201

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	$ 6,939,390	$ 8,531,045	$ 8,658,845	$ 127,800
Franchise taxes	230,500	232,800	226,368	(6,432)
Intergovernmental	3,863,775	3,424,195	3,488,097	63,902
Fines and forfeitures	245,220	201,100	201,539	439
Licenses and permits	560,010	388,150	406,296	18,146
Charges for services	939,870	842,190	893,288	51,098
Rents and royalties	8,400	11,000	11,278	278
Contributions and donations	10,600	10,000	4,021	(5,979)
Investment earnings	240,000	192,000	715,357	523,357
Other	24,980	61,700	76,068	14,368
Total Revenues	13,062,745	13,894,180	14,681,157	786,977
Expenditures				
Current				
General government				
Administration	474,640	473,200	434,764	38,436
Personnel	222,630	175,950	175,338	612
City council	3,771,210	730,070	759,637	(29,567)
Water resource project	18,150	17,355	15,083	2,272
Finance department	452,040	388,460	378,948	9,512
IT Services	110,480	107,500	101,520	5,980
Planning and zoning	427,910	425,340	430,150	(4,810)
Municipal court	471,790	388,355	403,010	(14,655)
Legal	280,030	278,420	318,720	(40,300)
Maintenance	615,680	562,140	605,255	(43,115)
Custodial service	146,000	134,500	133,625	875
Non-departmental	1,400,935	2,125,405	651,137	1,474,268
Engineering	346,430	267,370	275,373	(8,003)
Total general government	8,737,925	6,074,065	4,682,560	1,391,505
Public safety				
Police department	4,272,020	3,959,520	3,757,766	201,754
Fire department	1,854,490	1,712,905	1,567,572	145,333
Building inspection	184,700	176,670	174,274	2,396
Animal control	102,620	95,550	84,092	11,458
Communications	623,790	603,720	604,937	(1,217)
Total public safety	7,037,620	6,548,365	6,188,641	359,724
Culture and recreation				
Parks and recreation	727,750	847,050	814,264	32,786
City pool	106,340	106,340	166,299	(59,959)
Weightroom	16,730	16,730	14,983	1,747
Total culture and recreation	850,820	970,120	995,546	(25,426)
Total Expenditures	16,626,365	13,592,550	11,866,747	1,725,803
Excess (deficiency) of revenues over expenditures	(3,563,620)	301,630	2,814,410	2,512,780
Other financing sources (uses)				
Transfers in	23,490	23,490	23,490	-
Transfers out	(711,350)	(700,175)	(1,721,018)	(1,020,843)
Issuance of long-term debt	520,000	520,000	-	(520,000)
Proceeds from capital leases	727,180	736,150	736,750	600
Total other financing sources (uses)	559,320	579,465	(960,778)	(1,540,243)
Net change in fund balances	(3,004,300)	881,095	1,853,632	972,537
Fund balances, beginning of year	3,004,300	2,748,395	2,748,395	-
Fund balances, end of year	$ -	$ 3,629,490	$ 4,602,027	$ 972,537

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
HURF FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes	$ 1,004,530	$ 1,174,450	$ 1,289,558	$ 115,108
Intergovernmental	2,614,960	1,761,310	1,567,288	(194,022)
Charges for services	68,815	163,020	137,024	(25,996)
Investment earnings	28,500	36,890	32,525	(4,365)
Other	16,000	8,000	33,581	25,581
Total Revenues	3,732,805	3,143,670	3,059,976	(83,694)
Expenditures				
Current				
Highways and streets	4,312,875	3,749,535	2,057,739	1,691,796
Total Expenditures	4,312,875	3,749,535	2,057,739	1,691,796
Excess (deficiency) of revenues over expenditures	(580,070)	(605,865)	1,002,237	1,608,102
Fund balances, beginning of year	580,070	605,865	605,866	1
Fund balances, end of year	$ -	$ -	$ 1,608,103	$ 1,608,103

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer	Water	Totals	
Assets				
Current assets				
Cash and cash equivalents	$ 4,264,930	$ 12,129,995	$ 16,394,925	$ 231,573
Receivables, net				
Accounts receivable	310,055	347,047	657,102	-
Intergovernmental receivable	-	141,737	141,737	-
Deferred charges	-	1,834,041	1,834,041	-
Restricted assets	128,197	4,459,359	4,587,556	-
Total current assets	4,703,182	18,912,179	23,615,361	231,573
Noncurrent assets				
Notes receivable	-	6,668,056	6,668,056	-
Other assets	-	1,336,013	1,336,013	-
Capital assets				
Non-depreciable	3,119,914	1,259,075	4,378,989	-
Depreciable (net)	15,800,766	14,172,644	29,973,410	-
Total noncurrent assets	18,920,680	23,435,788	42,356,468	-
Total assets	23,623,862	42,347,967	65,971,829	231,573
Liabilities				
Current liabilities				
Accounts payable	-	148,079	148,079	-
Accrued wages and benefits	10,229	18,696	28,925	-
Interest payable	-	836,052	836,052	-
Matured debt principal payable	-	625,000	625,000	-
Customer deposits payable	-	209,194	209,194	-
Compensated absences	6,137	17,734	23,871	-
Bonds payable	-	865,000	865,000	-
Current liabilities	16,366	2,719,755	2,736,121	-
Noncurrent liabilities				
Compensated absences	6,453	4,273	10,726	-
Bonds payable	-	36,055,574	36,055,574	-
Total noncurrent liabilities	6,453	36,059,847	36,066,300	-
Total liabilities	22,819	38,779,602	38,802,421	-
Net assets				
Invested in capital assets, net of related debt	18,920,680	(9,509,164)	9,411,516	-
Unrestricted	4,680,363	13,077,529	17,757,892	231,573
Total net assets	$ 23,601,043	$ 3,568,365	$ 27,169,408	$ 231,573

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Totals	
Operating revenues				
Charges for services	$ 1,542,468	$ 5,439,508	$ 6,981,976	$ -
Total operating revenues	1,542,468	5,439,508	6,981,976	-
Operating expenses				
Costs of sales and services	1,587,291	3,158,315	4,745,606	13,669
Depreciation	524,507	872,215	1,396,722	-
Total operating expenses	2,111,798	4,030,530	6,142,328	13,669
Operating income (loss)	(569,330)	1,408,978	839,648	(13,669)
Nonoperating revenues (expenses)				
Impact fees	148,861	-	148,861	-
Capacity fees	12,096	13,550	25,646	-
Investment earnings	185,741	765,730	951,471	10,430
Interest expense	-	(1,776,363)	(1,776,363)	-
Other income	1,750	31,240	32,990	-
Total nonoperating revenues (expenses)	348,448	(965,843)	(617,395)	10,430
Change in net assets	(220,882)	443,135	222,253	(3,239)
Total net assets, beginning of year (as restated)	23,821,925	3,125,230	26,947,155	234,812
Total net assets, end of year	$ 23,601,043	$ 3,568,365	$ 27,169,408	$ 231,573

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Totals	
Cash flows from operating activities				
Receipts from customers	$ 1,488,626	$ 5,261,704	$ 6,750,330	$ -
Payments to suppliers	(1,245,564)	(2,424,564)	(3,670,128)	(13,669)
Payments to employees	(335,615)	(677,336)	(1,012,951)	-
Customer deposits	-	(44,023)	(44,023)	-
Other nonoperating receipts (expenses)	1,750	31,240	32,990	-
Net cash flows from operating activities	(90,803)	2,147,021	2,056,218	(13,669)
Cash flows from noncapital financing activities				
Impact fees	148,861	-	148,861	-
Capacity fees	12,096	13,550	25,646	-
Net cash flows from noncapital financing activities	160,957	13,550	174,507	-
Cash flows from capital and financing activities				
Purchases of capital assets	(387,479)	(671,405)	(1,058,884)	-
Principal paid on capital debt	-	(300,000)	(300,000)	-
Interest paid on capital debt	-	(1,688,758)	(1,688,758)	-
Notes receivable from other governmental entities	-	716,944	716,944	-
Net cash flows from capital and related financing activities	(387,479)	(1,943,219)	(2,330,698)	-
Cash flows from investing activities				
Investment earnings	185,741	765,730	951,471	10,430
Net cash flows from investing activities	185,741	765,730	951,471	10,430
Net change in cash and cash equivalents	(131,584)	983,082	851,498	(3,239)
Cash and cash equivalents, beginning of year (restated)	4,524,711	15,606,272	20,130,983	234,812
Cash and cash equivalents, end of year	$ 4,393,127	$ 16,589,354	$ 20,982,481	$ 231,573
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents	$ 4,264,930	$ 12,129,995	$ 16,394,925	$ 231,573
Restricted assets	128,197	4,459,359	4,587,556	-
Total cash and cash equivalents	$ 4,393,127	$ 16,589,354	$ 20,982,481	$ 231,573

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Fund			
	Sewer	Water	Totals	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ (569,330)	$ 1,408,978	$ 839,648	$ (13,669)
Depreciation	524,507	872,215	1,396,722	-
Other nonoperating receipts (expenses)	1,750	31,240	32,990	-
Change in assets/liabilities:				
Receivables	(53,842)	216,861	163,019	-
Intergovernmental receivable	-	(141,737)	(141,737)	-
Accounts payable	-	50,178	50,178	-
Intergovernmental payable	-	(252,928)	(252,928)	-
Accrued wages and benefits	3,412	2,143	5,555	-
Compensated absences	2,700	4,094	6,794	-
Customer deposits payable	-	(44,023)	(44,023)	-
Net cash provided (used) for operating activities	$ (90,803)	$ 2,147,021	$ 2,056,218	$ (13,669)

Noncash Investing, Capital and Financing Activities

During the fiscal year ended June 30, 2008, the City amortized $74,684 of bond issue costs, $20,359 of bond premiums and $36,654 of goodwill in the Water Fund.

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008

	Firemen Pension Trust
Assets	
Cash and cash equivalents	$ 129,017
Total assets	129,017
Net Assets	
Held in trust	$ 129,017

The notes to the basic financial statements are an integral part of this statement.

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Firemen Pension Trust
Additions	
Contributions	
Employer	$ 2,038
Employee	2,038
State fire premium	24,929
Total additions	29,005
Investment earnings (loss)	(2,204)
Total additions	26,801
Deductions	
Benefits	23,809
Total deductions	23,809
Change in net assets	2,992
Net assets, beginning of year	126,025
Net assets, end of year	$ 129,017

The notes to the basic financial statements are an integral part of this statement.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting entity

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

Included within the reporting entity:

Cottonwood Municipal Property Corporation. The Cottonwood Municipal Property Corporation's (CMPC) board of directors consists of three members which are appointed by the Cottonwood City Council. The CMPC, which is a nonprofit corporation incorporated under the laws of the State of Arizona, was formed for the sole purpose of assisting the City in obtaining financing for various projects of the City. The City has a "moral obligation" for the repayment of the Cottonwood Municipal Property Corporation's bonds. The CMPC is reported as a debt service fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. However, since debt service resources are provided during the current year for payment of general long-term principal and interest due early in the following year, the expenditures and related liabilities have been recognized in the Debt Service Fund.

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

The City reports the following major governmental funds:

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

The *Highway User Revenue Fund (HURF)* 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 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.

The *Debt Service Fund* accounts for the accumulation of resources for and the payment of long-term debt principal, interest and related costs.

The *Capital Projects Fund* accounts for the acquisition and construction of major capital facilities other then those financed by proprietary funds and trust funds.

The City reports the following major proprietary funds:

The *Sewer Fund* is used to account for the activities of the City's sewer operations.

The *Water Fund* is used to account for the activities of the City's water operations.

Additionally, the City reports the following fund types:

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 its required health insurance pool. All remaining funds will be used to supplement employee benefits. Accordingly, there are no actual claims or estimated claims payable at June 30, 2008.

The *Firemen Pension Trust Fund* accounts for the activities of the Firefighters' Relief and Pension Trust Fund (Fireman 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.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated in the process of consolidation.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds. Operating expenses for the internal service fund include the cost of insurance premiums and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, for governmental activities it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. For business-type activities, the use of restricted resources is governed by the applicable bond covenants.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

The City maintains separate bank accounts for each of its funds. All expenditures of the City are made out of the General Fund's operations account (except for the Employee Benefit Internal Service Fund). An interfund receivable is recorded in the General Fund and an interfund payable is recorded in the applicable fund. At the end of the month, the interfund receivables and payables are liquidated.

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 Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

Receivables of the governmental activities represent amounts due from the federal and state government for federal, state and local grants and state revenue sharing. Other receivables include franchise fees and other miscellaneous receivables. The receivables of the business-type activities represent uncollected customer billings.

3. Short-term interfund receivables/payables

During the course of operations, individual funds within the City's pooled cash accounts may borrow money from the other funds within the pool on a short-term basis. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet of the fund financial statements and are eliminated in the preparation of the government-wide financial statements.

4. Inventories and prepaid items

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories are recorded as expenditures at the time of purchase in the fund financial statements.

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

5. Restricted assets

Certain proceeds of the City's bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

6. Other assets

Other assets consist of goodwill. Goodwill is any excess of the cost of an acquired entity over the amounts assigned to assets acquired. Goodwill is presented as a separate line item in the financial statements. Amortization is provided on a straight-line basis over the estimated useful life of 40 years.

7. Capital assets

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

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

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

Buildings	15-40 years
Improvements other than buildings	8-40 years
Infrastructure	20 years
Machinery and equipment	5-25 years
Vehicles	5-8 years

8. Compensated absences

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

9. Long-term obligations

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

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

10. Net assets

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

11. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Prior period adjustment

In the prior year, the City did not record cash received during the acquisition of the water companies. Therefore, a prior period adjustment was necessary to properly state prior year cash and cash equivalents. The following recap is necessary to reconcile beginning net assets to the prior year net assets.

	Water Fund
Net assets, June 30, 2007, as previously reported	$ 2,563,475
Prior period adjustment	561,755
Net assets, June 30, 2007, as restated	$ 3,125,230

B. Budgetary information

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

1. In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget for the fiscal year commencing the following July 1, to the City Council. The operating budget includes proposed expenditures and the means of financing them.
2. The City operates under the voter approved alternative expenditure limitation. The electorate authorized the City, in accordance with Arizona Revised Statutes, to establish a local annual expenditure limitation each fiscal year. The City sets the annual expenditure limitation for all fund types as a whole with the adoption of the annual budget.
3. Public hearings on the budget are held each year in accordance with legal requirements in order to obtain comments from local taxpayers.
4. To ensure compliance with the State imposed expenditure limitation, a uniform expenditure report must be filed with the State each year. This report, issued under a separate cover, reconciles total City expenditures from the audited financial statements to total expenditures for reporting in accordance with the State's uniform expenditure reporting system (A.R.S. Section 41-1279.07).
5. Expenditures may not legally exceed the expenditure limitation of all fund types as a whole per State law. For management purposes, the City adopts a budget by department for each individual 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.

6. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service and Capital Projects Funds on essentially the same modified accrual basis of accounting used to record actual revenues and expenditures for financial reporting purposes.

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

No supplementary budgetary appropriations were necessary during the year.

C. Excess of expenditures over appropriations

Expenditures exceeded appropriations in the following funds:

	Amount of Overexpenditure
General Fund:	
City council	$ 29,567
Planning and zoning	4,810
Municipal court	14,655
Legal	40,300
Maintenance	43,115
Engineering	8,003
Communications	1,217
City pool	59,959
Nonmajor Governmental Funds:	
Airport Fund	39,268
Cemetery Fund	3,193

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2008 consist of the following:

Deposits	
Cash on hand	$ 2,031
Cash in bank	3,682,088
Investments	
State Treasurer's Investment Pool	9,620,768
Cash with trustee	48,656,643
Cash with paying agent	450,885
U.S. government securities	115,329
Mutual funds	181,649
Total cash and investments	62,709,393
Less: Cash with paying agent	(450,885)
Fiduciary Fund	(129,017)
Restricted assets	(4,587,556)
Total cash and cash equivalents	$ 57,541,935

Deposits - The City's deposits at June 30, 2008 had a carrying value of $3,682,088 and a bank balance of $4,135,572. Of the bank balance, $100,000 was covered by federal depository insurance, $500,000 was covered by securities protection insurance and $3,535,572 was collateralized by securities held by the pledging financial institution in the City's name. It is the City's policy to protect against custodial credit risk by ensuring funds are insured or collateralized by the pledging financial insititution.

Investments - The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. In addition, the mutual fund is not subject to custodial credit risk. However, the mutual funds are subject to interest rate risk as the mutual funds are exempt from the City's investment policy. The mutual funds have a maturity of less than one year. The cash with trustee and cash with the paying agent are on deposit and invested in U.S. government securities and bonds.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maturity of its investment portfolio to five years or less. Total investments greater than three years may not exceed 25% of the City's investment portfolio. At June 30, 2008 the City's investments in the State Treasurer's Investment Pool had the following weighted maturity:

	Amount	Weighted Average Maturity (in years)
State Treasurer's Investment Pool 5	$ 9,620,768	0.13

Credit risk. The City is empowered by statute to invest in the following types of securities. If an investment is not specifically listed in the suitable list, it is prohibited.

1) Fully insured or collateralized certificates of deposit and other evidence of deposit at banks and savings and loan associations;
2) Interest bearing savings accounts in banks and savings and loan institutions doing business in Arizona whose accounts are insured by federal deposit insurance;
3) Repurchase agreements with a maximum maturity of one hundred eighty days, collateralized at no less than 102 percent, provided a signed PSA Master Repurchase Agreement is on file with the counterpart bank or broker\dealer;
4) Deposits in the local government investment pool operated by the Treasurer of the State of Arizona;
5) Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency of instrumentality of the United States;
6) Bonds or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts, or municipal improvement districts which carry as a minimum one of the A ratings of Moody's Investors Service or one of the A ratings of Standard and Poor's Rating Service or their successors;
7) Commercial Paper with an A-1/P-1 rating or higher rating;
8) Mortgage-backed securities

Concentration of credit risk. The City will diversify 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. Diversification standards by security type and issuer shall not exceed the following:

1)	Fully insured or collateralized CD's	no more than 25%
2)	U.S. Treasuries and securities having principal and interest guaranteed by the U.S. Government or agencies or instrumentalities of the U.S. Government	100 %
3)	State, county, school district and other district municipal bonds or debt with an A rating or better	no more than 25%
4)	Repurchase agreements	100%
5)	Local Government Investment Pool	100%

The City complied with its investment policy related to its concentration of credit risk during the fiscal year ended June 30, 2008. The City's investments are not rated by a national quality credit rating agency.

2. Restricted assets

Restricted assets in the Enterprise Fund at June 30, 2008 consisted of the following:

	Business-type Activities
Replacement and extension	$ 128,197
Customer deposits	209,194
Debt service reserve	2,686,160
Unspent bond proceeds	1,564,005
Total restricted assets	$ 4,587,556

The restricted cash for customer deposits is not included in restricted net assets as the restricted cash was included as part of the original bond issue and, therefore, is not included in net assets.

3. Other assets

In the fiscal year ended June 30, 2005, the City acquired three water companies. The net excess of the cost of the acquired water companies over the amounts assigned to assets acquired is reported as goodwill. Amortization expense for the fiscal year was $36,856.

	Business-type Activities
Goodwill	$ 1,474,221
Less: accumulated amortization	(138,208)
Total	$ 1,336,013

The future estimated aggregate amortization expense as of June 30, 2008, were as follows:

	Business-type Activities
Year Ending June 30,	
2009	$ 36,856
2010	36,856
2011	36,856
2012	36,856
2013	36,856
Thereafter	1,151,733
	$ 1,336,013

4. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,422,270	$ -	$ -	$ 1,422,270
Construction in progress	1,722,501	3,780,386	(2,266,702)	3,236,185
Total capital assets, not being depreciated	**3,144,771**	**3,780,386**	**(2,266,702)**	**4,658,455**
Capital assets being depreciated:				
Buildings and improvements	11,350,970	1,949,042	-	13,300,012
Infrastructure	14,547,513	350,064	-	14,897,577
Vehicles, machinery and equipment	6,453,124	1,248,927	(171,845)	7,530,206
Total capital assets being depreciated	32,351,607	3,548,033	(171,845)	35,727,795
Less accumulated depreciation for:				
Buildings and improvements	(4,053,513)	(300,004)	-	(4,353,517)
Infrastructure	(5,899,597)	(679,613)	-	(6,579,210)
Vehicles, machinery and equipment	(3,712,637)	(806,433)	128,667	(4,390,403)
Total accumulated depreciation	(13,665,747)	(1,786,050)	128,667	(15,323,130)
Total capital assets, being depreciated, net	**18,685,860**	**1,761,983**	**(43,178)**	**20,404,665**
Governmental activities capital assets, net	**$ 21,830,631**	**$ 5,542,369**	**$ (2,309,880)**	**$ 25,063,120**

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 3,239,645	$ -	$ -	$ 3,239,645
Construction in progress	743,493	395,851	-	1,139,344
Total capital assets, not being depreciated	**3,983,138**	**395,851**	**-**	**4,378,989**
Capital assets being depreciated:				
Water distribution system	15,980,160	360,039	-	16,340,199
Wastewater system	18,892,282	146,904	-	19,039,186
Buildings and improvements	3,770,120	-	-	3,770,120
Machinery, equipment and vehicles	669,405	156,090	-	825,495
Total capital assets being depreciated	39,311,967	663,033	-	39,975,000
Less accumulated depreciation for:				
Water distribution system	(1,495,598)	(814,262)	-	(2,309,860)
Wastewater system	(5,266,516)	(392,685)	-	(5,659,201)
Buildings and improvements	(1,361,821)	(104,158)	-	(1,465,979)
Machinery, equipment and vehicles	(480,933)	(85,617)	-	(566,550)
Total accumulated depreciation	(8,604,868)	(1,396,722)	-	(10,001,590)
Total capital assets, being depreciated, net	**30,707,099**	**(733,689)**	**-**	**29,973,410**
Business-type activities capital assets, net	**$ 34,690,237**	**$ (337,838)**	**$ -**	**$ 34,352,399**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	$ 981,140
Public safety	557,477
Highways and streets	104,703
Culture and recreation	142,730
Total depreciation expense-governmental activities	$ 1,786,050
Business-type activities:	
Sewer	$ 524,507
Water	872,215
Total depreciation expense-business-type activities	$ 1,396,722

5. Construction commitments

The City has active construction projects at June 30, 2008. The projects include infrastructure improvements. At fiscal year end, the City's commitments with contractors were as follows:

	Governmental Activities	
Project	Spent-to-date	Remaining Commitment
Willard Street Extension	$ 125,565	$ 1,031,464
Railroad Wash Improvements	9,619	115,000
Library Expansion Project	2,353,408	248,385
12th Street Project	3,000	2,000,000
Airport Design Lighting	34,412	270,000
Multi-Generational Recreation Center	710,181	15,475,380
	$ 3,236,185	$ 19,140,229

	Business-type Activities	
Project	Spent-to-date	Remaining Commitment
State Route 260	$ 305,709	$ 1,594,291

B. Interfund receivables, payables and transfers

As of June 30, 2008 interfund receivable and payables were as follows:

	Due From
Due To	Nonmajor Governmental Funds
General Fund	$ 7,465

The above interfund receivables and payables were recorded to cover cash short-falls at June 30, 2008. The City expects to receive funds subsequent to June 30, 2008 to cover the deficit.

Interfund transfers for the year ended June 30, 2008 consisted of the following:

	Transfers Out			
Transfers In	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
General Fund	$ -	$ -	$ 23,490	$ 23,490
Debt Service Fund	1,006,966	-	-	1,006,966
Capital Projects Fund	-	13,889,631	-	13,889,631
Nonmajor Governmental Funds	714,052	-	5,414	719,466
	$ 1,721,018	$13,889,631	$ 28,904	$15,639,553

Transfers from the General Fund to the Nonmajor Governmental Funds were for subsidies provided to various special revenue funds. The transfer from the General Fund to the Debt Service Fund was recorded to transfer sales tax revenues dedicated to make the GADA loan payments. The transfer from the Debt Service Fund to the Capital Projects Fund was recorded to move excess sales tax accumulation to the Capital Projects Fund. Transfers between the Nonmajor Governmental Funds to the General Fund were recorded to repay the General Fund for airport tie-downs.

C. Obligations under capital leases

The City has entered into lease agreements as a lessee for financing the construction of the public safety building in the amount of $361,212, fire apparatus in the amount of $570,679, the acquisition of patrol vehicles in the amount of $450,683, the acquisition of twenty six mobile data terminals and six additional patrol vehicles in the amount of $736,750. The lease agreements qualify as capital leases for accounting purposes and; therefore, have been recorded at the net present value of the future minimum lease payments as of the inception date. Accordingly, the principal amount of the assets are capitalized in the government-wide statement of net assets.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Building improvements	$ 361,212
Vehicles and Equipment	1,758,112
Less: accumulated depreciation	(619,107)
Total	$ 1,500,217

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2008, were as follows:

	Governmental Activities
Year Ending June 30,	
2009	$ 384,489
2010	357,579
2011	357,579
2012	255,761
2013	172,880
2014	55,790
Total minimum lease payments	1,584,078
Less: amount representing interest	(165,995)
Present value of minimum lease payments	$ 1,418,083

D. Long-term obligations

The City has long-term bonds and loans payable issued to provide funds for the acquisition and construction of major capital facilities. The City has also issued debt to refund earlier obligations with higher interest rates. The debt is being repaid by the debt service fund. Compensated absences are paid by the applicable fund where each employee is regularly paid, primarily the General Fund.

The City has pledged sales taxes of the debt service fund and General Fund to repay $0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from debt service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 13.8 percent of revenues. The total principal and interest remaining to be paid on the bonds is $416,000. Principal and interest paid for the current year and total debt service sales taxes were $79,245 and $7,885,943, respectively.

The City has pledged sales taxes of the debt service fund and General Fund to repay $0.9 million in governmental general obligation bonds issued in 1992. Proceeds of the bonds provided financing for the municipal library facility complete with interior furnishings, books and periodicals, acquisition of land for the municipal library facility, improvement of the grounds of the municipal library facility and the operation and maintenance expenses of the municipal library facility. The bonds are payable from debt service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 13.8 percent of revenues. The total principal and interest remaining to be paid on the bonds is $369,250. Principal and interest paid for the current year and total debt service and General Fund sales taxes were $73,750 and $7,885,943, respectively.

The City has pledged state shared revenues and sales taxes of the debt service fund and General Fund to repay $0.9 million in governmental Greater Arizona Development Authority (GADA) loans issued in 2000. Proceeds of the loans provided financing of the wash flood control project known as the Railroad Wash Flood Control Project. The loans are payable solely from state shared revenues and debt service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 13.8 percent of revenues. The total principal and interest remaining to be paid on the loans is $267,475. Principal and interest paid for the current year and total state shared revenues and debt service and General Fund sales taxes were $108,936 and $10,412,348, respectively.

The City has pledged state shared revenues and sales taxes of the debt service fund and General Fund to repay $2.5 million in governmental GADA loans issued in 2001. Proceeds of the loans provided financing of the public safety building. The loans are payable solely from state shared revenues and debt service and General Fund sales taxes and are payable through 2013. Annual principal and interest payments on the loans are expected to require less than 13.8 percent of revenues. The total principal and interest remaining to be paid on the loans is $1,353,785. Principal and interest paid for the current year and total state shared revenues and debt service and General Fund sales taxes were $265,975 and $10,412,348, respectively.

The City has pledged state shared revenues and sales taxes of the debt service fund and General Fund to repay $19.5 million in governmental GADA loans issued in 2007. Proceeds of the loans provided financing for construction of the recreation center, expansion of the library, acquisition of land for public safety facilities and completion of improvements for the park. The loans are payable solely from state shared revenues and debt service and General Fund sales taxes and are payable through 2027. Annual principal and interest payments on the loans are expected to require less than 13.8 percent of revenues. The total principal and interest remaining to be paid on the loans is $29,515,154. Principal and interest paid for the current year and total state shared revenues and debt service and General Fund sales taxes were $1,127,468 and $10,412,348, respectively.

The City has pledged net revenues received from the City Water System to repay $13.6 million in business-type senior lien water system revenue bonds issued in 2004. Proceeds of the bonds provided financing for the acquisition of three private water companies and initial improvements to the Water System. The bonds are payable solely from revenues received from the City Water System and are payable through 2029. Annual principal and interest payments on the bonds are expected to require less than 17.1 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $20,036,561. Principal and interest paid for the current year and net revenues received from the City Water System were $908,784 and $3,091,713, respectively.

The City has pledged net revenues received from the City Water System to repay $24.0 million in business-type senior lien water system revenue obligations issued in 2006. Proceeds of the bonds provided financing of the acquisition of a privately-owned water company, a portion of which became part of the water utility system of the City and a portion of which was simultaneously sold by the City to the Town of Clarkdale. The bonds are payable solely from revenues received from the City Water System, including purchase payments in limited amounts required to be paid by the Town of Clarkdale pursuant to an Intergovernmental Utilities Purchase Agreement between the City and Town of Clarkdale. The bonds are payable through 2035. Annual principal and interest payments on the bonds are expected to require less than 17.1 percent of net revenues. The total principal and interest remaining to be paid on the bonds is $42,882,268. Principal and interest paid for the current year and total revenues received from the City Water System and the Town of Clarkdale were $1,388,320 and $3,091,713, respectively.

Description	Interest Rate (%)	Maturity	Amount
Governmental Activities:			
General obligation bonds			
Project of 1992, Series A; original issue $900,000	6.0-9.0	7/1/09-13	$ 350,000
Project of 1992, Series B; original issue $900,000	2.5	7/1/09-13	320,000
Total general obligation bonds			$ 670,000
Loans payable			
The Greater Arizona Development Authority (GADA), Project of 2000	5.0-6.0	8/1/09-13	$ 425,000
The Greater Arizona Development Authority (GADA), Project of 2002	3.35-4.5	8/1/09-13	1,190,000
The Greater Arizona Development Authority (GADA), Project of 2007	4.0-5.0	8/1/09-27	19,445,000
Total loans payable			$ 21,060,000
Business-type Activities:			
Revenue bonds			
MPC Series 2004; original issue $13,580,000	2.0-5.0	7/1/09-29	$ 12,685,000
MPC Series 2006; original issue $23,965,000	3.5-5.0	7/1/09-35	23,695,000
Total business-type revenue bonds			$ 36,380,000

CITY OF COTTONWOOD, ARIZONA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	July 1, 2007	Increases	Decreases	June 30, 2008	Due Within One Year
Governmental Activities:					
Bonds and loans payable:					
General obligation bonds	$ 780,000	$ -	$ (110,000)	$ 670,000	$ 120,000
Loans payable	1,890,000	19,935,000	(765,000)	21,060,000	985,000
Deferred amounts:					
Premium	-	348,142	(15,957)	332,185	-
Total bonds and loans payable	2,670,000	20,283,142	(890,957)	22,062,185	1,105,000
Other liabilities:					
Capital leases	951,558	736,750	(270,225)	1,418,083	323,775
Compensated absences	626,277	499,561	(486,678)	639,160	414,763
Total other liabilities	1,577,835	1,236,311	(756,903)	2,057,243	738,538
Governmental activities long-term liabilities	$ 4,247,835	$ 21,519,453	$ (1,647,860)	$ 24,119,428	$ 1,843,538
Business-type Activities:					
Revenue bonds	37,005,000	-	(625,000)	36,380,000	865,000
Deferred amount on premium	560,933	-	(20,359)	540,574	-
Total bonds payable	37,565,933	-	(645,359)	36,920,574	865,000
Other liabilities:					
Compensated absences	27,803	57,399	(50,605)	34,597	23,871
Business-type activities long-term liabilities	$ 37,593,736	$ 57,399	$ (695,964)	$ 36,955,171	$ 888,871

Debt service requirements on long-term debt at June 30, 2008 are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
Year Ending June 30,				
2009	$ 1,105,000	$ 963,613	$ 865,000	$ 1,653,779
2010	1,155,000	915,892	905,000	1,624,304
2011	1,205,000	865,028	920,000	1,592,304
2012	1,250,000	812,925	965,000	1,559,310
2013	1,315,000	757,975	975,000	1,524,048
2014-18	4,555,000	3,149,375	5,690,000	6,990,868
2019-23	5,650,000	2,060,231	7,060,000	5,702,966
2024-28	5,495,000	666,625	8,850,000	3,908,000
2029-33	-	-	7,180,000	1,758,750
2034-38	-	-	2,970,000	224,500
	$ 21,730,000	$ 10,191,664	$ 36,380,000	$ 26,538,829

NOTE 4 - OTHER INFORMATION

A. Risk management

The City of Cottonwood, Arizona is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City's insurance protection is provided by the Arizona Municipal Risk Retention Pool, of which the City is a participating member. The limit for basic coverage is for $2,000,000 per occurrence on a claims made basis. Excess coverage is for an additional $8,000,000 per occurrence on a follow form, claims made basis. No significant reduction in insurance coverage occurred during the year and no settlements exceeded insurance coverage during any of the past three fiscal years.

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

The City is also insured by Arizona Municipal Workers Compensation Fund for potential worker related accidents.

In prior years, the City of Cottonwood, Arizona established the City of Cottonwood Employee Benefit Trust (an internal service fund) to account for and finance its uninsured risks of loss for certain health and welfare benefits to eligible employees and their dependents. As of July 1, 2002, the City discontinued the City of Cottonwood Employee Benefit Trust and as of June 30, 2004 no liability was outstanding for unpaid claims. A balance of $291,278 was carried forward from fiscal year 2001-02 and will be used by the City to supplement employee benefits.

B. Contingent liabilities

Accumulated Sick Leave - Sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and, therefore, are not accrued. Unvested accumulated sick leave of City employees at June 30, 2008, totaled $872,955.

C. Subsequent events

Subsequent to June 30, 2008, the City incurred a loss of $92,003 on investments in the State's Local Government Investment Pool due to the bankruptcy of Lehman Brothers.

D. Retirement plans

Arizona State Retirement System

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

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

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates. For the year ended June 30, 2008, active plan members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the City's was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

		Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,				
	2008	$ 377,619	$ 49,268	$ 23,463
	2007	332,660	43,402	20,670
	2006	227,654	29,702	14,145

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The City contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 22.07% and 14.83% of annual covered payroll for Police and Fire, respectively.

Annual Pension Cost - During the year ended June 30, 2007 (the date of the last available information), the City of Cottonwood, Arizona's annual pension cost of $213,801 for police and $71,164 for fire was equal to the City of Cottonwood, Arizona's required and actual contributions.

The required contribution was determined as part of the June 30, 2007 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of 5.5% (including inflation at 5.0%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

Funded Status and Funding Progress - As of June 30, 2007, the most recent actuarial valuation date, the plan was 48.6 percent funded for police and 73.4 percent funded for fire. The actuarial accrued liability for benefits was $6.5 million for police and $2.1 million for fire, and the actuarial value of assets was $3.2 million for police and $1.6 million for fire, resulting in an unfunded actuarial accrued liability (UAAL) of $3.4 million for police and $0.6 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was $1.4 million for police and $0.8 million for fire, and the ratio of the UAAL to the covered payroll was 242.0 percent for police and 73.0 percent for fire.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The actuarial value of the City of Cottonwood, Arizona's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The City of Cottonwood, Arizona's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2007, was 20 years.

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

Three-Year Trend Information

Police

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2005	$ 157,191	100.0 %	$ -
2006	226,266	100.0	-
2007	213,801	100.0	-

Three-Year Trend Information

Fire

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percent Contributed	Net Pension Obligation
2005	$ 29,177	100.0 %	$ -
2006	44,332	100.0	-
2007	71,164	100.0	-

Additional historical trend information for the City's PSPRS is disclosed on page 76.

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

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%) after three (3) years, six percent (6%) per year thereafter until the volunteer is 100% 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 5.0% of covered compensation which is equally 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, 2008, the City's required contributions amounted to $2,038, which equaled the firefighters' contributions. The City received a state contribution of $24,929 during the fiscal year.

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.

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Required Supplementary Information

CITY OF COTTONWOOD, ARIZONA

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

SCHEDULE OF FUNDING PROGRESS

City of Cottonwood Police

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
2005	$ 2,497,767	$ 4,390,060	56.9 %	$(1,892,293)	$ 997,849	(189.6)%
2006	3,421,930	6,001,084	57.0	(2,579,154)	1,288,635	(200.1)
2007	3,175,629	6,538,541	48.6	(3,362,912)	1,389,404	(242.0)

City of Cottonwood Fire

Valuation Date June 30,	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Percent Funded	Over(Under) funded AAL	Annual Covered Payroll	Over(Under) funded AAL as a Percentage of Covered Payroll
2005	$ 1,400,258	$ 1,603,091	87.3 %	$ (202,833)	$ 566,772	(35.8)%
2006	1,509,512	1,740,190	86.7	(230,678)	711,082	(32.4)
2007	1,562,861	2,127,852	73.4	(564,991)	774,113	(73.0)

Combining and Individual Fund Statements and Schedules

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NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Library Fund - accounts for the City's public library activities.

Airport Fund - accounts for the City's airport rental and fuel sales revenues and the costs associated with the operation and maintenance of the municipal airport.

Grant Fund - accounts for Federal and State grants received by the City not required to be accounted for in a separate fund. Each grant has a specific project objective and the grant funds must be used for the stated purpose.

Cemetery Fund - accounts for the contribution received by the City for which principal and interest are to be used solely for the maintenance of the Cottonwood Cemetery.

CITY OF COTTONWOOD, ARIZONA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue				
	Library	Airport	Grant	Cemetery	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	$ 85,420	$ -	$ 131,882	$ -	$ 217,302
Receivables					
Accounts receivable	-	10,361	-	-	10,361
Taxes receivable	-	11,280	-	-	11,280
Intergovernmental receivable	-	-	28,053	-	28,053
Inventories	-	22,850	-	-	22,850
Total assets	$ 85,420	$ 44,491	$ 159,935	$ -	$ 289,846
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 3,225	$ -	$ -	$ 3,225
Accrued wages and benefits	11,470	-	-	-	11,470
Due to other funds	-	7,465	-	-	7,465
Customer deposits payable	-	818	-	-	818
Total liabilities	11,470	11,508	-	-	22,978
Fund balances					
Unreserved	73,950	32,983	159,935	-	266,868
Total fund balances	73,950	32,983	159,935	-	266,868
Total liabilities and fund balances	$ 85,420	$ 44,491	$ 159,935	$ -	$ 289,846

CITY OF COTTONWOOD, ARIZONA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2008

	Special Revenue				
	Library	Airport	Grant	Cemetery	Total Nonmajor Governmental Funds
Revenues					
Intergovernmental	$ 179,699	$ -	$ 271,352	$ -	$ 451,051
Charges for services	-	140,592	-	-	140,592
Rents and royalties	-	88,376	-	-	88,376
Contributions and donations	-	-	14,302	-	14,302
Investment earnings	2,868	-	80	105	3,053
Other	18,110	-	-	1,500	19,610
Total Revenues	200,677	228,968	285,734	1,605	716,984
Expenditures					
Current					
General government	-	229,483	-	41,933	271,416
Culture and recreation	844,283	-	-	-	844,283
Capital outlay	-	-	220,092	-	220,092
Total Expenditures	844,283	229,483	220,092	41,933	1,335,791
Excess (deficiency) of revenues over expenditures	(643,606)	(515)	65,642	(40,328)	(618,807)
Other financing sources (uses)					
Transfers in	656,127	-	5,414	57,925	719,466
Transfers out	-	(28,904)	-	-	(28,904)
Total other financing sources (uses)	656,127	(28,904)	5,414	57,925	690,562
Net change in fund balances	12,521	(29,419)	71,056	17,597	71,755
Fund balances, beginning of year	61,429	62,402	88,879	(17,597)	195,113
Fund balances, end of year	$ 73,950	$ 32,983	$ 159,935	$ -	$ 266,868

CITY OF COTTONWOOD, ARIZONA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	$ 150,495	$ 154,030	$ 154,030	$ -
Investment earnings	312,500	23,845	510,581	486,736
Total Revenues	462,995	177,875	664,611	486,736
Expenditures				
Debt Service				
Principal retirement	110,000	110,000	875,000	(765,000)
Interest on long-term debt	15,485,355	15,578,740	780,374	14,798,366
Total Expenditures	15,595,355	15,688,740	1,655,374	14,033,366
Excess (deficiency) of revenues over expenditures	(15,132,360)	(15,510,865)	(990,763)	14,520,102
Other financing sources (uses)				
Transfers in	-	-	1,006,966	1,006,966
Transfers out	-	-	(13,889,631)	(13,889,631)
Total other financing sources (uses)	-	-	(12,882,665)	(12,882,665)
Net change in fund balances	(15,132,360)	(15,510,865)	(13,873,428)	1,637,437
Fund balances, beginning of year	15,132,360	15,510,865	15,510,865	-
Fund balances, end of year	$ -	$ -	$ 1,637,437	$ 1,637,437

CITY OF COTTONWOOD, ARIZONA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Taxes				
Sales taxes	$ 1,591,965	$ -	$ -	$ -
Investment earnings	56,000	56,000	69,499	13,499
Other	-	600,000	-	(600,000)
Total Revenues	1,647,965	656,000	69,499	(586,501)
Expenditures				
Current				
Redevelopment and housing	-	-	2,967	(2,967)
Debt Service				
Issuance costs	-	-	401,879	(401,879)
Capital outlay	22,476,605	19,878,630	2,881,538	16,997,092
Total Expenditures	22,476,605	19,878,630	3,286,384	16,592,246
Excess (deficiency) of revenues over expenditures	(20,828,640)	(19,222,630)	(3,216,885)	16,005,745
Other financing sources (uses)				
Transfers in	-	-	13,889,631	13,889,631
Issuance of long-term debt	19,480,000	18,008,125	19,935,000	1,926,875
Premium on the issuance of long-term debt	-	-	348,142	348,142
Total other financing sources (uses)	19,480,000	18,008,125	34,172,773	16,164,648
Net change in fund balances	(1,348,640)	(1,214,505)	30,955,888	32,170,393
Fund balances, beginning of year	1,348,640	1,214,505	1,214,506	1
Fund balances, end of year	$ -	$ -	$ 32,170,394	$ 32,170,394

CITY OF COTTONWOOD, ARIZONA
LIBRARY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	$ 174,140	$ 177,520	$ 179,699	$ 2,179
Investment earnings	4,720	4,150	2,868	(1,282)
Other	19,110	20,480	18,110	(2,370)
Total Revenues	197,970	202,150	200,677	(1,473)
Expenditures				
Current				
Culture and recreation	864,410	849,135	844,283	4,852
Total Expenditures	864,410	849,135	844,283	4,852
Excess of revenues over expenditures	(666,440)	(646,985)	(643,606)	3,379
Other financing sources (uses)				
Transfers in	666,440	585,555	656,127	70,572
Total other financing sources (uses)	666,440	585,555	656,127	70,572
Net change in fund balances	-	(61,430)	12,521	73,951
Fund balances, beginning of year	-	61,430	61,429	(1)
Fund balances, end of year	$ -	$ -	$ 73,950	$ 73,950

CITY OF COTTONWOOD, ARIZONA
AIRPORT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Charges for services	$ 500	$ 99,800	$ 140,592	$ 40,792
Rents and royalties	80,410	74,920	88,376	13,456
Total Revenues	80,910	174,720	228,968	54,248
Expenditures				
Current				
General government	101,560	190,215	229,483	(39,268)
Total Expenditures	101,560	190,215	229,483	(39,268)
Excess (deficiency) of revenues over expenditures	(20,650)	(15,495)	(515)	14,980
Other financing sources (uses)				
Transfers out	(34,990)	(34,990)	(28,904)	6,086
Total other financing sources (uses)	(34,990)	(34,990)	(28,904)	6,086
Net change in fund balances	(55,640)	(50,485)	(29,419)	21,066
Fund balances, beginning of year	55,640	50,485	62,402	11,917
Fund balances, end of year	$ -	$ -	$ 32,983	$ 32,983

CITY OF COTTONWOOD, ARIZONA
GRANT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Intergovernmental	$ 561,000	$ 360,270	$ 271,352	$ (88,918)
Contributions and donations	-	-	14,302	14,302
Investment earnings	-	14,400	80	(14,320)
Total Revenues	561,000	374,670	285,734	(88,936)
Expenditures				
Current				
Culture and recreation	-	69,400	-	69,400
Capital outlay	589,000	316,110	220,092	96,018
Total Expenditures	589,000	385,510	220,092	165,418
Excess (deficiency) of revenues over expenditures	(28,000)	(10,840)	65,642	76,482
Other financing sources (uses)				
Transfers in	28,000	10,840	5,414	(5,426)
Total other financing sources (uses)	28,000	10,840	5,414	(5,426)
Net change in fund balances	-	-	71,056	71,056
Fund balances, beginning of year	-	-	88,879	88,879
Fund balances, end of year	$ -	$ -	$ 159,935	$ 159,935

CITY OF COTTONWOOD, ARIZONA
CEMETERY FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Investment earnings	$ 150	$ 150	$ 105	$ (45)
Other	7,500	3,000	1,500	(1,500)
Total Revenues	7,650	3,150	1,605	(1,545)
Expenditures				
Current				
General government	50,710	38,740	41,933	(3,193)
Total Expenditures	50,710	38,740	41,933	(3,193)
Excess (deficiency) of revenues over expenditures	(43,060)	(35,590)	(40,328)	(4,738)
Other financing sources (uses)				
Transfers in	44,910	53,190	57,925	4,735
Total other financing sources (uses)	44,910	53,190	57,925	4,735
Net change in fund balances	1,850	17,600	17,597	(3)
Fund balances, beginning of year	-	(17,600)	(17,597)	3
Fund balances, end of year	$ 1,850	$ -	$ -	$ -

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STATISTICAL SECTION

This section of the City of Cottonwood, Arizona'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 government's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the government's most significant local revenue source, sales tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

See the table of contents for page numbers of the schedules that encompass the above sections.

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CITY OF COTTONWOOD, ARIZONA
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	$ 5,533,106	$ 8,734,998	$ 11,768,874	$ 13,203,698	$ 15,984,073	$ 19,879,529
Restricted	10,138,969	10,392,167	12,240,292	15,078,283	17,373,701	15,803,361
Unrestricted	5,109,084	5,041,344	4,654,070	5,841,777	4,734,579	6,160,664
Total governmental activities net assets	$ 20,781,159	$ 24,168,509	$ 28,663,236	$ 34,123,758	$ 38,092,353	$ 41,843,554
Business-type activities						
Invested in capital assets, net of related debt	$ 20,721,636	$ 20,232,323	$ 19,861,056	$ 3,026,355	$ 6,664,535	$ 9,411,516
Restricted	-	-	109,195	-	-	-
Unrestricted	1,651,327	2,251,193	2,308,144	21,354,969	19,720,865	17,757,892
Total business-type activities net assets	$ 22,372,963	$ 22,483,516	$ 22,278,395	$ 24,381,324	$ 26,385,400	$ 27,169,408
Primary government						
Invested in capital assets, net of related debt	$ 26,254,742	$ 28,967,321	$ 31,629,930	$ 16,230,053	$ 22,648,608	$ 29,291,045
Restricted	10,138,969	10,392,167	12,349,487	15,078,283	17,373,701	15,803,361
Unrestricted	6,760,411	7,292,537	6,962,214	27,196,746	24,455,444	23,918,556
Total primary government net assets	$ 43,154,122	$ 46,652,025	$ 50,941,631	$ 58,505,082	$ 64,477,753	$ 69,012,962

Source: The City of Cottonwood, Arizona's Finance Department.

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

CITY OF COTTONWOOD, ARIZONA
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	$ 1,935,444	$ 3,165,670	$ 3,391,797	$ 3,633,378	$ 4,158,178	$ 5,431,120
Public safety	3,440,847	3,754,576	3,955,040	4,999,751	5,340,930	5,823,848
Highways and streets	2,088,749	1,178,261	1,756,480	1,768,236	1,919,302	1,690,237
Culture and recreation	738,018	1,219,169	1,188,433	1,072,134	1,570,172	1,461,968
Redevelopment and housing	-	59,157	12,895	330,859	7,726	5,993
Interest on long-term debt	617,896	521,391	433,955	440,910	453,033	782,836
Total governmental activities	8,820,954	9,898,224	10,738,600	12,245,268	13,449,341	15,196,002
Business-type activities						
Sewer	1,756,223	1,756,288	1,829,552	1,783,106	1,741,877	2,111,798
Water	-	-	1,647,241	3,091,964	5,357,102	5,806,893
Total business-type activities	1,756,223	1,756,288	3,476,793	4,875,070	7,098,979	7,918,691
Total primary government expenses	$ 10,577,177	$ 11,654,512	$ 14,215,393	$ 17,120,338	$ 20,548,320	$ 23,114,693
Program Revenues						
Governmental activities:						
Fines, fees and charges for services:						
General government	$ 905,345	$ 942,135	$ 1,061,751	$ 1,291,421	$ 1,106,685	$ 1,272,614
Public safety	116,221	111,726	136,062	155,653	154,297	163,902
Highways and streets	55,117	73,271	112,414	119,723	102,770	106,112
Culture and recreation	145,247	150,514	128,879	133,373	166,496	209,570
Operating grants and contributions	2,009,528	1,757,041	1,312,060	1,720,891	1,680,043	1,563,547
Capital grants and contributions	-	607,633	1,801,971	1,033,594	497,116	766,878
Total governmental activities program revenues	3,231,458	3,642,320	4,553,137	4,454,655	3,707,407	4,082,623
Business-type activities						
Charges for services:						
Sewer	1,287,650	1,365,152	1,537,397	1,473,445	1,510,301	1,556,314
Water	-	-	1,330,414	4,316,081	5,992,924	5,484,298
Total business-type activities program revenues	1,287,650	1,365,152	2,867,811	5,789,526	7,503,225	7,040,612
Total primary government program revenues	$ 4,519,108	$ 5,007,472	$ 7,420,948	$ 10,244,181	$ 11,210,632	$ 11,123,235

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Net (expense)/revenue						
Governmental activities	$ (5,589,496)	$ (6,255,904)	$ (6,185,463)	$ (7,790,613)	$ (9,741,934)	$ (11,113,379)
Business-type activities	(468,573)	(391,136)	(608,982)	914,456	404,246	(878,079)
Total primary government net expense	$ (6,058,069)	$ (6,647,040)	$ (6,794,445)	$ (6,876,157)	$ (9,337,688)	$ (11,991,458)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes:						
Sales taxes	$ 6,767,354	$ 7,262,398	$ 7,865,948	$ 10,073,924	$ 10,247,957	$ 10,102,433
Franchise taxes	-	-	200,448	215,249	221,675	226,368
State urban revenue sharing	976,932	827,665	843,803	961,036	1,232,997	1,528,328
State sales tax revenue sharing	717,869	772,232	850,346	982,801	1,032,214	998,077
Auto lieu tax revenue sharing	612,487	579,864	615,579	695,836	690,992	667,929
Investment earnings (loss)	(81,126)	201,095	304,066	637,714	1,028,744	1,341,445
Transfers	-	-	-	(315,425)	(744,050)	-
Total governmental activities:	8,993,516	9,643,254	10,680,190	13,251,135	13,710,529	14,864,580
Business-type activities:						
Impact fees	263,414	462,773	292,026	457,503	123,038	148,861
Investment earnings (loss)	(15,379)	37,509	111,345	408,032	732,742	951,471
Other	990	1,407	490	7,513	-	-
Transfers	-	-	-	315,425	744,050	-
Total business-type activities	249,025	501,689	403,861	1,188,473	1,599,830	1,100,332
Total primary government	$ 9,242,541	$ 10,144,943	$ 11,084,051	$ 14,439,608	$ 15,310,359	$ 15,964,912
Change in Net Assets						
Governmental activities	$ 3,404,020	$ 3,387,350	$ 4,494,727	$ 5,460,522	$ 3,968,595	$ 3,751,201
Business-type activities	(219,548)	110,553	(205,121)	2,102,929	2,004,076	222,253
Total primary government	$ 3,184,472	$ 3,497,903	$ 4,289,606	$ 7,563,451	$ 5,972,671	$ 3,973,454

Source: The City of Cottonwood, Arizona's Finance Department.

Note: 2002-03 was the City's first year to prepare government-wide financial statements.

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

Fiscal Year	Sales taxes	Occupancy Taxes	Franchise taxes	Utility Taxes	Total
1999	$ 4,560,947	$ 56,424	$ 222,469	$ 84,655	$ 4,924,495
2000	5,829,603	61,356	228,659	87,979	6,207,597
2001	5,989,670	66,556	251,033	90,031	6,397,290
2002	6,390,370	74,716	297,675	101,560	6,864,321
2003	6,412,152	66,739	184,996	103,467	6,767,354
2004	6,907,731	66,026	194,534	94,107	7,262,398
2005	7,690,663	71,998	200,448	103,287	8,066,396
2006	9,849,837	84,108	215,249	139,979	10,289,173
2007	9,996,301	84,362	221,675	167,294	10,469,632
2008	9,809,638	117,091	226,368	175,704	10,328,801

Source: The City of Cottonwood, Arizona's Finance Department.

Note 1: Tax revenues are subject to accrual; therefore, the taxes reported above on the accrual basis of accounting are the same as the tax revenues reported on the modified accrual basis of accounting.

CITY OF COTTONWOOD, ARIZONA
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	$ 4,187	$ 5,161	$ 6,443	$ 6,771	$ 49,289	$ 7,345	$ 8,617	$ 10,181	$ 8,634	$ 7,171
Unreserved	1,173,792	1,632,994	1,464,053	1,464,921	2,850,602	3,011,469	2,749,476	3,906,175	2,739,761	4,594,856
Total General Fund	$ 1,177,979	$ 1,638,155	$ 1,470,496	$ 1,471,692	$ 2,899,891	$ 3,018,814	$ 2,758,093	$ 3,916,356	$ 2,748,395	$ 4,602,027
All other governmental funds										
Reserved	$ 4,742,798	$ 4,763,610	$ 4,978,916	$ 5,056,585	$ 5,067,525	$ 5,066,448	$ 5,061,148	$ 5,061,148	$ 5,068,960	$ 309,368
Unreserved, reported in:										
Special revenue funds	877,932	846,894	165,650	513,609	223,105	145,344	129,173	586,077	793,167	1,867,639
Debt service funds	831,576	1,969,324	2,119,243	3,194,357	4,071,740	4,118,507	5,843,855	8,261,550	10,449,717	1,335,401
Capital projects funds	807,162	746,180	1,044,517	1,044,517	793,370	1,212,512	1,245,289	1,292,734	1,214,506	32,170,394
Total all other governmental funds	$ 7,259,468	$ 8,326,008	$ 8,308,326	$ 9,809,068	$ 10,155,740	$ 10,542,811	$ 12,279,465	$ 15,201,509	$ 17,526,350	$ 35,682,802

Source: The City of Cottonwood, Arizona's Finance Department.

CITY OF COTTONWOOD, ARIZONA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(UNAUDITED)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	$ 4,971,973	$ 6,131,972	$ 6,229,506	$ 6,864,321	$ 6,767,354	$ 7,262,398	$ 8,066,396	$ 10,289,173	$ 10,469,632	$ 10,328,801
Intergovernmental	3,975,090	3,397,120	4,789,242	4,015,570	4,302,568	4,536,910	5,420,044	5,145,641	5,117,564	5,506,436
Fines and forfeitures	149,230	131,147	131,335	149,726	144,252	136,045	188,403	217,603	197,862	201,539
Licenses and permits	292,460	261,410	277,103	248,391	251,794	399,709	514,256	575,266	437,983	406,296
Charges for services	536,657	548,138	708,635	676,518	686,362	721,605	786,746	840,152	952,151	1,170,904
Rents and royalties	-	-	-	-	-	-	-	73,865	93,460	99,654
Contributions and donations	-	-	-	-	-	-	-	619	15,798	18,323
Investment earnings (loss)	357,804	502,059	667,697	352,884	(80,643)	199,159	300,983	631,846	1,019,753	1,331,015
Other	180,111	137,684	145,124	593,175	320,685	224,450	154,097	181,122	90,547	129,259
Total revenues	10,463,325	11,109,530	12,948,642	12,900,585	12,392,372	13,480,276	15,430,925	17,955,287	18,394,750	19,192,227
Expenditures										
General government	2,194,667	2,456,853	2,685,185	2,353,877	2,463,621	2,748,927	3,291,331	3,527,813	4,050,855	4,953,976
Public safety	2,439,463	2,683,135	3,017,613	3,012,749	3,378,651	3,700,437	3,888,439	4,792,440	6,073,567	6,188,641
Highways and streets	759,330	1,066,573	3,258,826	1,313,991	1,789,262	1,206,585	2,576,666	1,296,764	1,926,129	2,057,739
Culture and recreation	976,736	1,003,871	1,104,134	1,064,309	1,147,835	1,174,615	1,647,340	1,557,929	2,055,696	1,839,829
Redevelopment and housing	-	-	-	-	-	45,317	7,420	324,972	-	2,967
Capital outlay	1,035,088	444,791	182,059	3,467,879	519,808	1,527,010	4,841	19,406	209,127	3,101,630
Debt service										
Principal retirement	965,000	1,454,400	1,640,000	1,885,000	1,975,000	2,050,000	2,105,000	2,170,000	2,225,000	875,000
Interest on long-term debt	550,740	498,500	725,648	696,897	617,896	521,391	433,955	440,910	404,129	780,374
Issuance costs	-	-	-	-	-	-	-	-	-	401,879
Total expenditures	8,921,024	9,608,123	12,613,465	13,794,702	11,892,073	12,974,282	13,954,992	14,130,234	16,944,503	20,202,035
Excess of revenues over (under) expenditures	1,542,301	1,501,407	335,177	(894,117)	500,299	505,994	1,475,933	3,825,053	1,450,247	(1,009,808)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Other financing sources (uses)										
Transfers in	-	522,315	974,385	1,976,405	882,044	2,171,893	1,082,493	1,171,803	1,719,306	15,639,553
Transfers out	-	(522,315)	(1,561,655)	(1,976,405)	(882,044)	(2,171,893)	(1,082,493)	(1,487,228)	(2,463,356)	(15,639,553)
Issuance of long-term debt	-	-	4,398,446	-	-	-	-	-	-	19,935,000
Premium on the issuance of long-term debt	-	-	-	-	-	-	-	-	-	348,142
Proceeds from capital leases	-	903,934	-	-	361,212	-	-	570,679	450,683	736,750
Total other financing sources (uses)	-	903,934	3,811,176	-	361,212	-	-	255,254	(293,367)	21,019,892
Net change in fund balance	$ 1,542,301	$ 2,405,341	$ 4,146,353	$ (894,117)	$ 861,511	$ 505,994	$ 1,475,933	$ 4,080,307	$ 1,156,880	$ 20,010,084
Debt service as a percentage of noncapital expenditures	19.22 %	21.31 %	19.03 %	25.00 %	22.80 %	22.46 %	18.20 %	18.50 %	15.71 %	13.59 %

Source: The City of Cottonwood, Arizona's Finance Department.

CITY OF COTTONWOOD, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales Category										
Construction	$ 28,000	$ 26,136	$ 27,818	$ 29,636	$ 21,545	$ 27,182	$ 29,591	$ 26,775	$ 24,263	$ 50,977
Manufacturing	4,273	4,727	3,727	4,727	5,273	7,182	10,182	10,489	10,679	9,782
Communications and utilities	4,364	5,045	5,591	6,591	6,636	4,864	7,409	5,387	5,651	5,651
Wholesale trade	3,500	6,318	7,045	6,000	7,273	4,318	3,455	4,356	3,952	3,943
Retail trade	157,000	164,909	172,682	183,364	178,818	106,591	231,227	292,781	310,058	277,900
Restaurants and bars	16,545	17,727	18,591	19,091	20,091	21,364	23,909	27,845	31,504	29,610
Real estate, rental and lease	14,045	15,591	18,273	20,500	19,455	22,227	32,500	41,707	40,134	38,711
Hotels and other lodging	3,864	4,182	4,364	4,727	4,864	5,091	5,500	5,988	6,180	11,425
Services	15,909	18,409	16,545	17,455	16,500	12,636	8,727	8,639	8,582	8,983
All other outlets	731	1,513	7,322	2,384	28,744	109,811	5,043	7,013	6,901	-
Total	$ 248,231	$ 264,557	$ 281,958	$ 294,475	$ 309,199	$ 321,266	$ 357,543	$ 430,980	$ 447,904	$ 436,982
City sales tax rate	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %	2.20 %

Source: Arizona Department of Revenue.

(1) Taxable sales were only available on a calendar year basis. The year the fiscal year ends is the year the calendar taxable sales are presented (ie. the fiscal year ended June 30, 2007 presents calendar year taxable income of 2007).

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	City Direct Rate	Maricopa County	State of Arizona	Total
1999	2.20 %	0.70 %	5.60 %	8.50 %
2000	2.20	0.70	5.60	8.50
2001	2.20	0.70	5.60	8.50
2002	2.20	0.70	5.60	8.50
2003	2.20	0.70	5.60	8.50
2004	2.20	0.70	5.60	8.50
2005	2.20	0.70	5.60	8.50
2006	2.20	0.75	5.60	8.55
2007	2.20	0.75	5.60	8.55
2008	2.20	0.75	5.60	8.55

Source: Arizona Department of Revenue.

CITY OF COTTONWOOD, ARIZONA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(IN THOUSANDS OF DOLLARS)
(UNAUDITED)

	Governmental Activities			Business-type Activities			
Fiscal Year	General Obligation Bonds	Capital Leases	Notes and Loans Payable	Revenue Bonds	Total Primary Government	Percentage of Personal Income	Per Capita
1999	$ 9,820	$ 248	$ -	$ -	$ 10,068	5.51 %	$ 1,138
2000	8,855	162	4,497	-	13,514	6.94	1,472
2001	7,825	-	8,895	-	16,720	7.19	1,711
2002	6,735	-	7,625	-	14,360	5.22	1,433
2003	4,330	263	6,890	-	11,483	3.96	1,121
2004	3,515	219	5,655	-	9,389	3.04	880
2005	2,650	174	4,415	13,580	20,819	6.24	1,917
2006	1,740	698	3,155	37,305	42,898	12.56	3,927
2007	780	952	1,890	37,005	40,627	11.60	3,650
2008	670	1,418	21,060	36,380	59,528	N/A	5,287

Source: The City of Cottonwood, Arizona's Finance Department.
N/A denotes information was not available.

CITY OF COTTONWOOD, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Excise Tax Backed Bonds	Taxable Sales (1)	Percentage of Outstanding Bonds to Taxable Sales	Population	Net General Obligation Bonded Debt Per Capita
1999	$ 9,820,000	$ 248,231,000	3.96 %	8,845	$ 1,110.23
2000	8,855,000	264,558,000	3.35	9,179	964.70
2001	7,825,000	281,958,000	2.78	9,770	800.92
2002	6,735,000	294,475,000	2.29	10,020	672.16
2003	4,330,000	309,199,000	1.40	10,240	422.85
2004	3,515,000	321,266,000	1.09	10,665	329.58
2005	2,650,000	357,543,000	0.74	10,860	244.01
2006	1,740,000	430,980,000	0.40	10,925	159.27
2007	780,000	447,904,000	0.17	11,130	70.08
2008	670,000	436,982,000	0.15	11,260	59.50

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

(1) Taxable sales were only available on a calendar year basis. The year the fiscal year ends is the year the calendar taxable sales are presented (ie. the fiscal year ended June 30, 2008 presents calendar year taxable income of 2008).

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2008
(UNAUDITED)

Governmental Unit	Outstanding Debt	Estimated Percentage Applicable (1)	Estimated Share of Overlapping Debt
Overlapping debt			
Yavapai County	$ -	100.00 %	$ -
Yavapai Community College	59,235,000	4.55 %	2,695,193
Cottonwood/Oak Creek School District	55,285,000	4.85 %	2,681,322
Mingus Union High School District	15,000,000	44.98 %	6,747,000
Total overlapping debt			12,123,515
City of Cottonwood, Arizona direct debt			670,000
Total direct and overlapping debt			$12,793,515

Source: Yavapai County Treasurer's Office.
(1) Proportion applicable to the City of Cottonwood, Arizona is computed on the ratio of net secondary assessed valuation for 2007-08.

CITY OF COTTONWOOD, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
20% debt limit	$ 9,632,564	$ 10,730,953	$ 11,693,454	$ 12,926,439	$ 13,628,731	$ 15,557,339	$ 16,651,467	$ 18,437,838	$ 21,149,383	$ 24,190,654
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 9,632,564	$ 10,730,953	$ 11,693,454	$ 12,926,439	$ 13,628,731	$ 15,557,339	$ 16,651,467	$ 18,437,838	$ 21,149,383	$ 24,190,654
Total net debt applicable to the 20% limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-
6% debt limit	$ 2,889,769	$ 3,219,286	$ 3,508,036	$ 3,877,932	$ 4,088,619	$ 4,667,202	$ 4,995,440	$ 5,531,351	$ 6,344,815	$ 7,257,196
Total applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	$ 2,889,769	$ 3,219,286	$ 3,508,036	$ 3,877,932	$ 4,088,619	$ 4,667,202	$ 4,995,440	$ 5,531,351	$ 6,344,815	$ 7,257,196
Total net debt applicable to the 6% limit as a percentage of the debt limit	-	-	-	-	-	-	-	-	-	-

Source: The City of Cottonwood, Arizona's Finance Department.

Note 1: General obligation bonds are secured by ad valorem taxing power of the City. Within the percentage of assessed valuation limitation above, the City may issue bonds for general improvement purposes or for specific projects.

Note 2: 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 sales taxes rather than property taxes.

CITY OF COTTONWOOD, ARIZONA
CALCULATION OF LEGAL DEBT MARGIN
JUNE 30, 2008
(UNAUDITED)

Net secondary assessed valuation		$ 120,953,271
Water, Sewer, Light, Parks, Open Space and Recreational Facility Bonds		
Debt limit - 20% of secondary net assessed valuation		$ 24,190,654
Debt applicable to limit		
General obligation bonds outstanding	$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
20% legal debt margin		24,190,654
All other general obligation bonds		
Debt limit - 6% of secondary net assessed valuation		7,257,196
Debt applicable to limit		
General obligation bonds outstanding	$ -	
Less amount set aside for repayment of debt	-	
Net debt applicable to limit		-
All other general obligation bonds debt margin		7,257,196
Total legal debt margin		$ 31,447,850

Source: The Yavapai County Assessor's Office.

Note 1: General obligations bonds are secured by ad valorem taxing power of the City. Within the percentage of assessed valuation limitations above, the City may issue bonds for general improvement purposes or for specific projects.

Note 2: For statutory purposes, the City's outstanding bonds are not considered general obligation bonds subject to statutory limits listed above because the City's bonds at June 30, 2008 were secured by sales taxes instead of property taxes.

CITY OF COTTONWOOD, ARIZONA
PLEDGED-REVENUE COVERAGE
LAST TEN FISCAL YEARS
(UNAUDITED)

	Water Revenue Bonds						1% Sewer Sales Tax Backed Bonds			
Fiscal Year	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	1% Sales Tax Incentive	Debt Service Principal	Debt Service Interest	Coverage
1999	$ -	$ -	$ -	$ -	$ -	N/A	$ 2,457,000	$ 900,000	$ 319,000	2.02
2000	-	-	-	-	-	N/A	2,612,000	955,000	294,000	2.09
2001	-	-	-	-	-	N/A	2,723,000	1,015,000	354,000	1.99
2002	-	-	-	-	-	N/A	2,895,000	1,085,000	295,000	2.10
2003	-	-	-	-	-	N/A	2,779,000	1,155,000	232,000	2.00
2004	-	-	-	-	-	N/A	3,085,000	725,000	165,000	3.47
2005	1,385,599	916,353	469,246	-	425,007	1.10	3,466,000	775,000	127,000	3.84
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40	4,041,000	815,000	88,000	4.48
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95	4,322,000	960,000	77,000	4.17
2008	6,250,028	3,158,315	3,091,713	625,000	1,672,104	1.35	4,176,000	110,000	43,000	27.29

(1): Water charges and other includes charges for services, impact fees, capacity fees, investment earnings and miscellaneous revenues.
(2): Operating expenses do not include depreciation and interest expense.

CITY OF COTTONWOOD, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
(UNAUDITED)

Fiscal Year	Population	Personal Income	Per Capita Personal Income	School Enrollment	City of Cottonwood Unemployment Rate
1999	8,845	$ 182,649,250	$ 20,650	2,248	4.30 %
2000	9,179	194,631,516	21,204	2,432	4.40
2001	9,770	232,565,080	23,804	2,510	4.40
2002	10,020	274,988,880	27,444	2,559	3.80
2003	10,240	289,976,320	28,318	2,642	4.50
2004	10,665	309,135,690	28,986	2,981	3.60
2005	10,860	333,904,040	30,746	3,432	3.90
2006	10,925	341,425,720	31,252	3,190	3.90
2007	11,130	350,127,540	31,458	3,008	3.70
2008	11,260	N/A	N/A	3,369	5.10

Source: The City of Cottonwood, Arizona and the Economic Estimates Commission.
N/A denotes information was not available.

CITY OF COTTONWOOD, ARIZONA
PRINCIPAL EMPLOYERS
JUNE 30, 2008 AND NINE YEARS PRIOR
(UNAUDITED)

	2008			1999		
Employer	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Verde Valley Medical Center	900	1	22.03 %	507	1	21.03 %
Wal-Mart	400	2	9.79	120	3	4.98
Cottonwood Oak Creek Schools	275	3	6.73	300	2	12.44
City of Cottonwood	164	4	4.01	104	5	4.31
Fry's	100	7	2.45	90	7	3.73
Mingus Union High School	145	5	3.55	120	3	4.98
Home Depot	107	6	2.62	-	-	-
Food City	50	8	1.22	70	8	2.90
Phelp's and Sons	26	9	0.64	100	6	-
	2,167		53.62 %	1,411		58.52 %

Source: The City of Cottonwood, Arizona.

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

	Full-Time Equivalent Employees									
Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Management services	3.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	6.8	7.8
Finance	2.7	2.7	2.7	2.7	3.7	2.7	2.7	2.7	4.2	4.2
Planning	4.5	4.5	4.5	5.5	5.5	6.5	6.5	6.5	6.5	6.5
Building	3.5	2.5	2.5	2.5	2.5	2.5	2.5	3.5	3.5	3.5
Legal	*	*	*	*	1.5	*	*	2.0	2.0	-
Court	3.9	3.5	2.5	3.5	3.5	3.5	3.5	6.0	6.0	6.0
Police										
Officers	24.0	26.0	26.0	26.0	28.0	28.0	30.0	30.0	31.0	31.0
Civilians	15.0	15.0	15.0	14.0	14.0	14.0	14.0	15.0	16.0	16.0
Fire										
Firefighters and officers	8.0	8.0	9.0	9.0	10.0	11.0	13.0	15.0	15.0	15.0
Civilians	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other public works										
Engineering	4.0	3.0	3.0	3.3	3.3	3.3	3.3	3.3	4.5	4.5
Streets	6.0	6.0	6.0	6.5	6.5	6.5	6.5	6.3	6.5	6.5
Parks and recreation	14.0	14.0	14.0	11.0	11.0	11.0	11.0	13.0	13.0	13.0
Library	9.0	9.0	9.0	9.0	9.0	9.0	8.0	9.0	11.0	11.0
Water	*	*	*	*	*	*	*	9.3	16.2	17.2
Sewer	8.0	8.0	8.0	8.3	8.3	8.3	8.3	9.3	9.8	9.8
Transit	5.0	4.5	4.5	5.0	6.0	6.0	8.0	8.0	10.0	11.0
Total	111.9	113.0	113.0	112.6	119.1	118.6	123.6	145.2	163.0	164.0

Source: The City of Cottonwood, Arizona.

* Information not available.

CITY OF COTTONWOOD, ARIZONA
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Years									
Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government										
Building permits issued	872	756	714	750	418	485	767	830	440	454
Police										
Physical arrests	918	884	912	861	904	923	953	1,230	1,584	1,325
Parking violations	1	28	33	65	70	68	114	68	10	1
Traffic violations	1,813	1,783	2,388	2,702	2,646	2,322	2,679	2,405	1,820	1,872
Fire										
Emergency responses	1,200	1,090	1,375	1,762	1,745	1,580	1,970	1,970	2,356	2,455
Fires extinguished	-	-	-	-	-	170	161	225	183	181
Inspections	498	513	432	1,224	1,038	649	1,001	1,001	654	1,287
Other public works										
Street resurfacing (miles)	9	*	3	*	*	*	8	2	- *	- *
Library										
Volumes in collection	61,200	61,200	64,276	73,331	71,000	76,733	83,334	86,182	93,469	96,332
Total volumes borrowed	230,000	224,000	210,841	227,859	250,269	269,950	281,845	309,351	349,783	327,324
Water										
New connections	*	*	*	*	*	*	*	248	59	33
Water main breaks	*	*	*	*	*	*	*	82	131	170
Average daily consumption (thousand of gallons)	*	*	*	*	*	*	*	115	261	263
Peak daily consumption (thousand of gallons)	*	*	*	*	*	*	*	183	27	34
Wastewater										
Average daily sewage treatment (thousands of gallons)	580	580	759	759	789	910	910	987	1,017	960
Transit										
Total route miles	84,591	88,619	90,128	90,128	94,630	94,630	105,046	179,644	219,483	221,819
Passengers	31,872	33,390	34,396	34,396	36,115	36,115	36,745	40,830	48,212	55,330

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.

CITY OF COTTONWOOD, ARIZONA
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS
(UNAUDITED)

	Fiscal Year									
Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Police										
Police stations	1	1	1	1	1	1	1	1	1	1
Patrol units	*	16	16	16	16	18	16	19	24	24
Fire stations	1	1	1	1	1	1	1	1	1	1
Other public works										
Streets (miles)	60	60	60	60	60	60	60	60	60	60
Highways (miles)	10	10	10	10	10	10	10	10	10	10
Streetlights	592	595	595	597	597	598	646	646	646	646
Traffic signals	5	6	6	8	8	9	10	10	10	10
Parks and recreation										
Acreage	88	88	88	121	121	121	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/softball diamonds	4	4	5	5	5	5	5	5	6	7
Soccer/football fields	1	1	1	1	1	1	1	1	1	1
Community centers	1	1	1	1	1	1	1	1	1	1
Water										
Water mains (miles)	*	*	*	*	*	*	*	87	87	87
Fire hydrants	*	*	*	*	*	*	*	349	349	356
Storage capacity (thousands of gallons)	*	*	*	*	*	*	*	7,836	7,836	7,837
Wastewater										
Sanitary sewers (miles)	35	35	35	35	35	35	35	35	48	48
Treatment capacity (thousands of gallons)	0.7	0.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transit										
Minibuses	3	3	6	6	6	6	6	6	7	7

Source: The City of Cottonwood, Arizona.

* Information was either not available or not applicable.