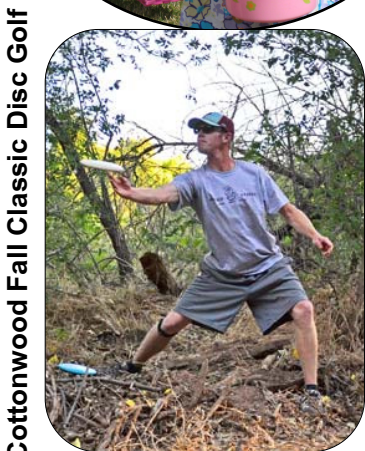


City of Cottonwood, AZ



Year Ending June 30, 2013

Comprehensive Annual Financial Report

CITY OF COTTONWOOD, ARIZONA

COTTONWOOD, ARIZONA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Issued by:
Finance Department

CITY OF COTTONWOOD, ARIZONA

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CITY OF COTTONWOOD, ARIZONA

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CITY OF COTTONWOOD, ARIZONA

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CITY OF COTTONWOOD, ARIZONA

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INTRODUCTORY SECTION

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December 12, 2013

Dear Citizens:

As our local economy improves, City staff has stepped up its work on many projects during fiscal year 2013. Despite each City project being important, there are a few that highlight the efforts that were made this year by City staff and crews despite the slowly improving economy.



As part of the City's continued effort to boost the economy, the City Council and staff completed renovation on the Old Town jail and started work on the parking lot to improve parking availability in that section of Old Town. Old Town continues to show increased activities through continued City supported events such as the Christmas Chocolate Walk and Walkin' on Main. Area wineries have greatly contributed to the local activities by moving into this section of the community. Inclusive, the local winery businesses have been very successful in becoming part of the area's Verde Valley Wine Trail (<http://www.vvwinetrail.com>) which continues to be showcased in national magazines and articles.

The overall local economy enjoys support from signature events such as Thunder Valley Rally (TVR), Rhythm and Ribs, and the MS 150 Bike Ride. TVR brings bikers from all walks of life and from all over the southwest for a long weekend of riding, music and fun. The Rhythm and Ribs event attracts individuals with a taste for ribs, wine, fun and music to what has been named Arizona's Original Ribs Cook-Off and Concert event. The MS 150 Bike Ride, known as "MS Ride the Vortex," brings cyclists from all over the southwest for a weekend of beautiful scenery, outstanding people and of course, a great cause.

Despite the slowly improving economy, the City continued to improve quality of life by making several improvements to the Cottonwood Library such as internet improvements, resurfacing the parking lot, and developing a youth outreach program for local schools, preschools and Head Start programs. The City also held the Second Annual Cottonwood Fall Veterans Day Classic co-sponsored by the Verde Valley Disc Golf Club. This Professional Disc Golf Association (PDGA) event not only brought regional disc golfers to play, it also raised over \$1,600 for area veterans. We are so proud of the sponsors and City staff for sponsoring this event.



The City's public safety departments have been very busy working on projects this year. The Police Department re-established its bicycle patrol program which improved the ability to patrol at some of the more congested events. With the assistance of Emery Riddle Aeronautical University of Prescott, Arizona the SWAT robot functionality was greatly improved. The Fire Department installed over 100 smoke detectors at no charge as well as initiated a SHARE CPR program providing no cost CPR training for employees of local businesses. They also worked closely with the Utility Department to institute a semi-annual fire hydrant maintenance program to improve compliance with ISO rating requirements.

During the past year, Cottonwood received several prestigious awards and recognitions. The City received the Arizona Office of Tourism award for "cooperative local marketing" as well as national recognition from Lonely Planet as one of the top 10 vacation spots in the U.S. It also received the Governor's Economic Development Award for Innovative Economic Development. The Finance Department received its 14th Distinguished Budget Presentation Award as well as its 22nd consecutive Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report from the Government Finance Officers Association.

These projects and accomplishments are a small portion 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 your valuable service to the community. Finally, I sincerely thank the City Manager, Doug Bartosh, the General Managers, Department Heads, and their staff. 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 12, 2013

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

State law requires that all general-purpose local governments publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States by a certified public accounting firm licensed in the State of Arizona. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Cottonwood (City) for the fiscal year ended June 30, 2013.

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

The City's financial statements have been audited by Heinfeld, Meech & Co., P.C., a certified public accounting firm. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2013, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.



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

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

PROFILE OF THE GOVERNMENT

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

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

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

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

FACTORS AFFECTING FINANCIAL CONDITION

Internal Controls. 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 concept of reasonable assurance recognizes:

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

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

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

In accordance with Arizona Revised Statutes, the City Manager submits a proposed budget to the City Council for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The City is subject to the State of Arizona's 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 as do all cities and towns in the State of Arizona. That makes a municipality subject to numerous budget and related legal requirements. Article IX, Section 20 (1) of the Arizona Constitution sets limits on the City's legal budget capacity.

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

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

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

Local Economy. The City of Cottonwood, Arizona continues to face many growth issues during these slow growth economic times. 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 2013 a successful year, and will provide for future success. The City of Cottonwood continues to research programs that have been postponed in the recent years. Additionally, the City hopes to correct any deficiencies that may have occurred during the recent economic recession.

In order to correct these deficiencies, the City has proposed a baseline budget with the hiring for all vacancies needing to be filled to be delayed by three to six months. Some non-essential vacancies will continue to be frozen indefinitely or eliminated. The City will be closely monitoring its revenue sources and make adjustments accordingly.

Economic Outlook. Retail Sales - The City of Cottonwood, Arizona relies heavily on city sales tax. Overall, city sales tax revenues provide over 50% of the General Fund revenues. The city's sales tax rate is currently at 3.0%, and the City also has a 3.0% Bed Tax (occupancy) which is transferred to the local Chamber of Commerce.

State Shared Revenues - The City of Cottonwood, Arizona receives significant revenue allocations from the State. These "State Shared Revenues" include allocations of the state-collected income tax, sales tax, fuel tax and motor vehicle-in-lieu taxes. All but the fuel tax is placed in the City's General Fund, where it is used to sustain a large portion of the City's day-to-day activities. These revenue sources have improved recently with the economy showing signs of recovery.

Highway User Revenue Fund (HURF) - The state shared fuel tax, as it is often called, is placed in this fund to be used specifically for street maintenance and construction, 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 2010).

Long-term Financial Planning. The City's Budget Policy has helped it weather the economic downturn. This policy continues to require the City to internally restrict an amount equal to 16.67% of the previous year's operating revenues as part of its fund balance. This is also estimated to be about 60 days of expenditures coverage.

Additionally, an accumulating reserve of 2.67% of the previous year's general fund operating revenues is set aside for capital projects. This year represents the fourteenth year of this policy. With this fund now over \$1,000,000, the City Council, at the recommendation of Management, made the decision to cap this fund at \$1,000,000 and use any excess for everyday maintenance and operational costs until the economy improves.

Regular reporting to the City Manager and General Managers, allows for prompt shift of priorities in order to counter downward economic pressure. This year the General Fund alone was able to heavily reduce its budget downward and still accomplish its overall goals.

MAJOR INITIATIVES AND SERVICE EFFORTS AND ACCOMPLISHMENTS

For the Year. The following depicts the continued commitment of the City of Cottonwood, Arizona to make the community a better place to live. Fiscal year 2013 goals obtained are summarized within this list of accomplishments:

Physical Development -

-  Completed the remodel and renovation of the Old Town jail and courthouse.
-  Completed the design and construction of Cactus Street parking.
-  Completed the Mingus Avenue reconstruction project.
-  The new reclaimed water tank and booster pack were connected to the water distribution system that includes Del Webb (Cottonwood Ranch), Mesquite Hills and the CAT building.
-  Installed new water mains on Cactus Street, Santa Cruz Street, 3rd Street alley, North Willard, Old Town Main Street alley and Main Street / 3rd Street.

Community and Economic Development -

-  Completed the installation of the recreation center solar project.
-  Hosted Thunder Valley Rally, Relay for Life, Rhythm and Ribs, the MS Bike Ride and Bicycle Rodeo.
-  Internet access was increased through Cable One and wireless printing was made available at the library.
-  The library parking lot was re-surfaced with an additional two parking spaces.
-  The library's youth services department designed and implemented an outreach program to the local schools, preschools, and Head Start programs.

Public Safety –

-  Reinstated the bicycle patrol program.
-  Embry Riddle Aeronautical assisted with the improvement to the SWAT robot functionality.
-  Implemented a smoke detector installation program in a city neighborhood. Over 100 smoke detectors were provided and installed in over 35 residences at no charge to occupants.
-  Obtained two grants from the Arizona Governor's Office of Highway Safety and the Arizona Criminal Justice Commission for underage drinking and DUI enforcement.
-  Initiated the SHARE CPR program providing no cost CPR training for employees of local businesses.
-  Initiated a semi-annual fire hydrant maintenance program in conjunction with the City's Water Utility to improve compliance with ISO rating requirements.

General -

-  Successfully transitioned the Verde Lynx and CAT transit programs back to the City of Cottonwood.
-  Received the Office of Tourism award for “cooperative local marketing” as well as national recognition from Lonely Planet as one of the top 10 vacation spots in the U.S.
-  Received the Governor's Economic Development Award for Innovative Economic Development.
-  Obtained 14th Distinguished Budget Presentation Award from Government Finance Officers Association (GFOA) for Fiscal Year 2013.

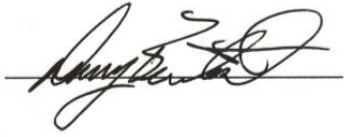
AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 22nd consecutive year that the City has received this prestigious award. In order to be awarded this certificate, the City published an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

This certificate is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the program's requirements and we are submitting it to GFOA to determine its eligibility for the fiscal year 2012-13 certificate.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Doug Bartosh', written over a horizontal line.

Doug Bartosh,
City Manager

A handwritten signature in black ink, appearing to read 'JR Rodriguez', written in a cursive style.

Jesus R. Rodriguez, CGFM
Administrative Services General Manager





Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Cottonwood
Arizona**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

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graph TD
    CC[CITY COUNCIL  
7 POSITIONS] --> CA[CITY ATTORNEY (1)]
    CC --> CM[CITY CLERK (1)]
    CC --> MC[CITY MANAGER (1)]
    CC --> MJ[MAGISTRATE JUDGE (1)]
    
    CM --> DCC[DEPUTY CITY CLERK (1)]
    
    MC --> EAC[EXECUTIVE ASSISTANT TO THE CITY MANAGER (1)]
    MC --> AD[ECONOMIC DEVELOPMENT DIRECTOR (1)]
    MC --> NR[NATURAL RESOURCES DIRECTOR (1)]
    MC --> AA[ADMINISTRATIVE ASSISTANT (1)]
    
    AD --> AAD[ADMINISTRATIVE ASSISTANT (1)]
    
    MJ --> CAJ[COURT ADMINISTRATOR (1)]
    CAJ --> CCJ[COURT CLERKS]
    
    MC --> PD[POLICE DEPARTMENT (37)]
    MC --> FD[FIRE DEPARTMENT (28)]
    MC --> CS[COMMUNITY SERVICES GENERAL MANAGER (1)]
    
    PD --> COM[COMMUNICATIONS]
    PD --> OE[ORDINANCE ENFORCEMENT (2)]
    
    CS --> PR[PARKS & RECREATION (3)]
    CS --> RC[RECREATION CENTER (10)]
    CS --> LIB[LIBRARY (11)]
    CS --> CAT[CAT/LYNX TRANSIT (10)]
    
    MC --> DSM[DEVELOPMENT SERVICES GENERAL MANAGER (1)]
    DSM --> WUD[WATER UTILITY DEPARTMENT (18.25)]
    DSM --> WWD[WASTE WATER UTILITY DEPARTMENT (10.75)]
    DSM --> CDS[COMMUNITY DEVELOPMENT SERVICES (4)]
    DSM --> PW[PUBLIC WORKS (4)]
    DSM --> SM[STREET'S MAINTENANCE]
    DSM --> PBM[PARKS & BUILDING MAINTENANCE (6.5)]
    DSM --> ES[ENGINEERING SERVICES (7)]
    DSM --> CMaint[CEMETERY MAINTENANCE]
    DSM --> TLO[TERRORISM LIASON OFFICER (.5)]
    DSM --> AO[AIRPORT OPERATIONS]
    
    MC --> ASGM[ADMINISTRATIVE SERVICES GENERAL MANAGER (1)]
    ASGM --> FID[FINANCE DEPARTMENT (3)]
    ASGM --> HRD[HUMAN RESOURCE DEPARTMENT (1.8)]
    ASGM --> ID[IT DEPARTMENT (2)]
    ASGM --> PUR[PURCHASING (1)]
    ASGM --> CAM[CEMETERY ADMINISTRATION (.2)]
    ASGM --> STA[SALES TAX AUDITS CONTRACTED]

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CITY OF COTTONWOOD, ARIZONA

LIST OF PRINCIPAL OFFICIALS

CITY COUNCIL

Diane Joens
Mayor

Karen Pfeifer
Vice Mayor

Tim Elinski
Member

Randy Garrison
Member

Jessie Dowling
Member

Terrence Pratt
Member

Ruben Jaurequi
Member

ADMINISTRATIVE STAFF

Doug Bartosh
City Manager

Jesus R. Rodriguez, CGFM
Administrative Services General Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Cottonwood, Arizona (City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, for the year ended June 30, 2013, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 15, budgetary comparison information on pages 72 through 75, and schedules of funding progress on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, individual fund schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of City of Cottonwood, Arizona's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering City of Cottonwood, Arizona's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

December 12, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

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**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the City of Cottonwood, Arizona (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information we have furnished in our letters of transmittal, which can be found in the introductory section of this report.

FINANCIAL HIGHLIGHTS

- The City's total net position of governmental activities decreased \$851,293 to \$43.8 million and the business-type activities decreased \$893,673 to \$23.8 million, representing a 2 percent decrease and 4 percent decrease, respectively, of the total net position of \$67.6 million.
- General revenues from governmental activities accounted for \$14.3 million in revenue, or 73 percent of all revenues from governmental activities. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5.4 million or 27 percent of total governmental activities revenues. The City had \$7.5 million of program specific revenues and \$328,570 in general revenues related to business-type activities.
- The City had \$20.1 million in expenses related to governmental activities, an increase of 5 percent from the prior fiscal year primarily due to resuming operations of the Cottonwood Area Transit and Verde LYNX bus systems. The City had \$9.1 million in expenses related to business-type activities, an increase of 12 percent from the prior fiscal year.
- Among major governmental funds, the General Fund had \$14.9 million in current fiscal year revenues, which primarily consisted of taxes, charges for services and intergovernmental revenues. The total expenditures of the General Fund were \$15.4 million. The General Fund's fund balance decreased \$537,432 to \$5.9 million as a result of an increase in the cost of salaries and related benefits due to a compensation study.
- The Enterprise Funds' net position at the end of the year amounted to \$24.0 million. The decrease in net position of \$893,673 was primarily due to an increase in depreciation expense.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The accrual basis of accounting is used for the government-wide financial statements.

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

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

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, 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.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (Cont'd)

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

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 use the modified accrual basis of accounting and focus on near-term inflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Transit, Grant, Debt Service and Capital Projects Funds, all of which are considered to be major funds. The City does not have non-major governmental funds.

Proprietary funds. The City maintains two different types of proprietary funds: enterprise funds and an internal service fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its operations of the sewer plant and water system. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for supplemental employee benefits.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water fund and sewer fund, which are considered to be major funds of the City.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. Due to their custodial nature, the fiduciary funds do not have a measurement focus.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budget process. The City adopts an annual budget for all governmental funds. A schedule of revenues, expenditures and changes in fund balances - budget and actual has been provided for the General Fund and major Special Revenue Funds as required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, governmental activities assets exceeded liabilities by \$43.8 million at the current fiscal year end.

The largest portion of the City's governmental activities net position reflects its investment in capital assets (e.g., land, infrastructure, buildings and improvements, vehicles, machinery and equipment and construction in progress), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related outstanding 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. In addition, a portion of the City's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

The following tables present a summary of the City's net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	2013	2012	2013	2012	2013	2012
	Governmental	Governmental	Business-Type	Business-Type	2013	2012
	Activities	Activities	Activities	Activities	Total	Total
Current and other assets	\$ 21,363,814	\$ 24,011,957	\$ 20,706,522	\$ 22,610,537	\$ 42,070,336	\$ 46,622,494
Capital assets, net	44,313,105	42,522,744	37,470,346	37,504,115	81,783,451	80,026,859
Total assets	<u>65,676,919</u>	<u>66,534,701</u>	<u>58,176,868</u>	<u>60,114,652</u>	<u>123,853,787</u>	<u>126,649,353</u>
Current and other liabilities	2,326,872	1,430,954	1,132,480	1,206,547	3,459,352	2,637,501
Long-term liabilities	19,509,248	20,411,655	33,244,490	34,214,534	52,753,738	54,626,189
Total liabilities	<u>21,836,120</u>	<u>21,842,609</u>	<u>34,376,970</u>	<u>35,421,081</u>	<u>56,213,090</u>	<u>57,263,690</u>
Net position						
Net investment in capital assets	26,606,032	23,573,513	4,306,570	3,354,977	30,912,602	26,928,490
Restricted	1,371,766	2,034,245	2,557,755	2,557,735	3,929,521	4,591,980
Unrestricted	15,863,001	19,084,334	16,935,573	18,780,859	32,798,574	37,865,193
Total net position	<u>\$ 43,840,799</u>	<u>\$ 44,692,092</u>	<u>\$ 23,799,898</u>	<u>\$ 24,693,571</u>	<u>\$ 67,640,697</u>	<u>\$ 69,385,663</u>

At the end of the current fiscal year the City reported positive balances in all categories of net position. The same situation held true for the prior fiscal year.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets. The following are significant current year transactions that had an impact on the Statement of Net Position.

- The principal retirement of \$1,105,000 of bonds and \$1,110,000 of loans.
- The addition of \$4.2 million of governmental capital assets primarily through construction projects and purchases of vehicles, machinery, and equipment.
- The addition of \$1.8 million of business-type capital assets through construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment.
- A new capital lease agreement of \$616,574 for the purchase of vehicles, machinery, and equipment.
- An increase in accumulated depreciation due to depreciation expense of \$2.4 million and \$1.8 million for governmental and business-type activities, respectively.

CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

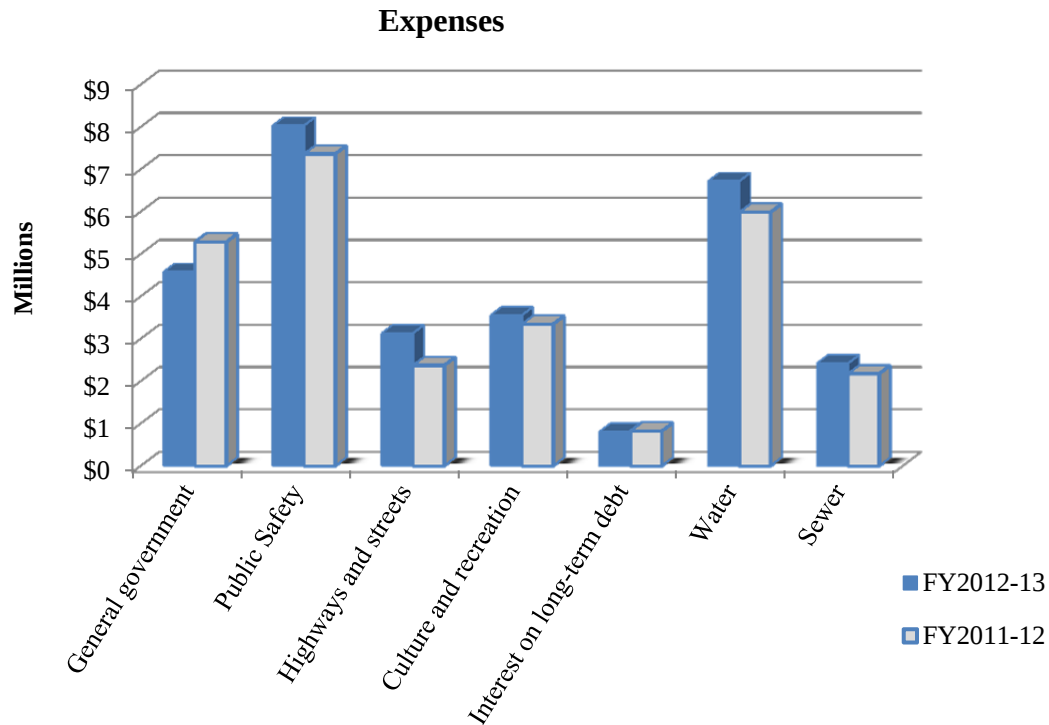
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)

Changes in net position. The City's total revenues for the current fiscal year were \$27.5 million. The total cost of all programs and services was \$29.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

	2013 Governmental Activities	2012 Governmental Activities	2013 Business-Type Activities	2012 Business-Type Activities	2013 Total	2012 Total
Revenues						
Program revenues:						
Charges for services	\$ 2,554,769	\$ 2,842,327	\$ 7,528,381	\$ 7,148,251	\$ 10,083,150	\$ 9,990,578
Operating grants and contributions	2,824,452	1,359,992			2,824,452	1,359,992
Capital grants and contributions	19,699	293,486			19,699	293,486
General revenues						
Sales taxes	11,329,353	10,579,983			11,329,353	10,579,983
Auto lieu taxes	563,851	602,832			563,851	602,832
Franchise taxes	363,653	359,871			363,653	359,871
Unrestricted state shared revenue	2,088,713	1,831,024			2,088,713	1,831,024
Investment income	(71,463)	240,737	328,570	395,242	257,107	635,979
Transfers	(398,256)		398,256			
Total revenues	<u>19,274,771</u>	<u>18,110,252</u>	<u>8,255,207</u>	<u>7,543,493</u>	<u>27,529,978</u>	<u>25,653,745</u>
Expenses						
General government	4,584,034	5,283,596			4,584,034	5,283,596
Public safety	8,035,427	7,364,363			8,035,427	7,364,363
Highways and streets	3,134,571	2,373,133			3,134,571	2,373,133
Culture and recreation	3,561,035	3,347,540			3,561,035	3,347,540
Interest on long-term debt	810,997	822,514			810,997	822,514
Water			6,725,012	5,988,525	6,725,012	5,988,525
Sewer			2,423,868	2,176,959	2,423,868	2,176,959
Total expenses	<u>20,126,064</u>	<u>19,191,146</u>	<u>9,148,880</u>	<u>8,165,484</u>	<u>29,274,944</u>	<u>27,356,630</u>
Changes in net position	<u>(851,293)</u>	<u>(1,080,894)</u>	<u>(893,673)</u>	<u>(621,991)</u>	<u>(1,744,966)</u>	<u>(1,702,885)</u>
Net position, beginning	<u>44,692,092</u>	<u>45,772,986</u>	<u>24,693,571</u>	<u>25,315,562</u>	<u>69,385,663</u>	<u>71,088,548</u>
Net position, ending	<u>\$ 43,840,799</u>	<u>\$ 44,692,092</u>	<u>\$ 23,799,898</u>	<u>\$ 24,693,571</u>	<u>\$ 67,640,697</u>	<u>\$ 69,385,663</u>

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont'd)



The following are significant current year transactions that have had an impact on the change of net position.

- The City resumed operation of the Cottonwood Area Transit and Verde LYNX bus systems.
- Operating grants and contributions increased \$1.5 million primarily due to federal grants passed through the Arizona Department of Transportation for the operation of the transit systems. Additionally, the previous operator of the transit systems transferred \$1.1 million of vehicles back to the City.
- Sales taxes increased \$749,370 due to an increase in taxable sales.
- Highways and streets expenses increased \$761,438 primarily due to resuming operations of the Cottonwood Area Transit and Verde LYNX bus systems.
- General government expenses decreased \$699,562 primarily due to the reclassification of indirect costs charged to other funds as reductions of general government expenses.

CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Concl'd)

The following table presents the cost of the City's major functional activities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

	2013 Total Expenses	2013 Net (Expense)/ Revenue	2012 Total Expenses	2012 Net (Expense)/ Revenue
Governmental Activities				
General government	\$ 4,584,034	\$ (3,284,190)	\$ 5,283,596	\$ (3,338,018)
Public safety	8,035,427	(7,584,228)	7,364,363	(6,704,944)
Highways and streets	3,134,571	(478,732)	2,373,133	(1,605,716)
Culture and recreation	3,561,035	(2,568,997)	3,347,540	(2,224,149)
Interest on long-term debt	810,997	(810,997)	822,514	(822,514)
Total expenses	<u>\$ 20,126,064</u>	<u>\$ (14,727,144)</u>	<u>\$ 19,191,146</u>	<u>\$ (14,695,341)</u>
Business-Type Activities				
Water	\$ 6,725,012	\$ (839,491)	\$ 5,988,525	\$ (289,136)
Sewer	2,423,868	(781,008)	2,176,959	(728,097)
Total expenses	<u>9,148,880</u>	<u>(1,620,499)</u>	<u>8,165,484</u>	<u>(1,017,233)</u>
Total	<u>\$ 29,274,944</u>	<u>\$ (16,347,643)</u>	<u>\$ 27,356,630</u>	<u>\$ (15,712,574)</u>

- The cost of all governmental activities this year was \$20.1 million. The cost of all business-type activities this year was \$9.1 million.
- Federal, State, and county governments and charges for services subsidized certain governmental programs with grants and contributions and other local revenues of \$5.4 million.
- Net cost of governmental activities of \$14.7 million was financed by general revenues, which are made up of primarily sales taxes of \$11.3 million and state shared revenues of \$2.1 million.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The financial performance of the City as a whole is reflected in its governmental funds. As the City completed the year, its governmental funds reported a combined fund balance of \$17.3 million, a decrease of \$3.6 million due primarily to increased capital outlay expenditures for highways and streets projects and solar panels at the recreation center.

The General Fund comprises 34 percent of the total fund balance. Approximately \$4.6 million or 79 percent of the General Fund's fund balance constitutes unassigned fund balance.

The General Fund is the principal operating fund of the City. The decrease in fund balance of \$537,432 to \$5.9 million as of fiscal year end was primarily a result of an increase in the cost of salaries and related benefits. General Fund revenues increased \$28,679. This is the result of an increase in sales tax revenues of \$735,327 or 8%, netted with the reclassification of indirect costs charged to other funds as reductions of charges for services. General Fund expenditures decreased \$757,568. This was a result of reclassifying indirect costs charged to other funds as reductions of general government expenditures.

The Capital Projects Fund comprises 61% of the total fund balance, which is restricted and assigned for capital projects. The fund balance decreased \$3.0 million to \$10.5 million due to increased capital outlay expenditures for highways and streets projects and solar panels at the recreation center.

Proprietary funds. Net position of the Enterprise Funds and the Internal Service Fund at the end of the fiscal year amounted to \$23.8 million and \$93,436, respectively. The decrease in net position in the Enterprise Funds of \$893,673 from the prior fiscal year was primarily due to an increase in depreciation expense.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City revised the General Fund annual expenditure budget primarily due to changes in the council contingency reserve. The difference between the original budget and the final amended budget was a \$6.1 million decrease, or 27 percent.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

BUDGETARY HIGHLIGHTS (Concl'd)

A schedule showing the budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information. The significant variances are summarized as follows:

- The favorable variances of \$343,795 and \$779,953 in general government and public safety and the unfavorable variance of \$1.2 million in capital outlay are primarily due to capital expenditures budgeted on the departmental level.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of the end of the current fiscal year, the City had invested \$68.8 million in governmental capital assets and \$55.4 million in business-type capital assets, including buildings, facilities, vehicles, computers, equipment, and infrastructure assets. These amounts represent net increases prior to depreciation of \$4.0 million and \$1.8 million from the prior fiscal year for governmental and business-type activities, respectively. The increases were primarily due to construction projects, infrastructure improvements and purchases of vehicles, machinery, and equipment. Total depreciation expense for the current fiscal year was \$2.4 million for governmental activities and \$1.8 million for business-type activities.

The following schedule presents a summary of capital asset balances for the fiscal years ended June 30, 2013 and June 30, 2012.

	2013 Governmental Activities	2012 Governmental Activities	2013 Business-Type Activities	2012 Business-Type Activities	2013 Total	2012 Total
Capital assets – non-depreciable	\$ 4,977,818	\$ 3,467,235	\$ 5,477,609	\$ 5,126,815	\$ 10,455,427	\$ 8,594,050
Capital assets – depreciable, net	39,335,287	39,055,509	31,992,737	32,377,300	71,328,024	71,432,809
Total	<u>\$ 44,313,105</u>	<u>\$ 42,522,744</u>	<u>\$ 37,470,346</u>	<u>\$ 37,504,115</u>	<u>\$ 81,783,451</u>	<u>\$ 80,026,859</u>

The estimated cost to complete current construction projects is \$14.2 million.

Additional information on the City's capital assets can be found in Note 8.

**CITY OF COTTONWOOD, ARIZONA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Concl'd)

Debt Administration. At year-end, the City had \$18.6 million in governmental long-term debt outstanding with \$1.7 million due within one year. The City had \$33.2 million in business-type long-term debt outstanding, with \$975,000 due within one year. This represents net decreases of \$1.0 million and \$985,359 for governmental and business-type activities, respectively.

State statutes currently limit the amount of general obligation debt a city may issue to 20 percent of its total assessed valuation for water, sewer, lights, open space preserves parks, playgrounds and recreational facilities. The current 20 percent debt limitation for the City is \$21.1 million. State statutes also currently limit the amount of general obligation debt a City may issue to 6 percent of its total assessed valuation for all other purposes. The current 6 percent debt limitation for the City is \$6.3 million. The City's outstanding bonds are not considered general obligation bonds subject to statutory limits because the bonds are secured by sales taxes.

Additional information on the City's long-term debt can be found in Notes 9-12 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Many factors were considered by the City's officials during the process of developing the fiscal year 2013-14 budget. Among them:

- Fiscal year 2012-13 budget balance carry forward (estimated \$3.6 million).
- Employee salaries and benefits (estimated \$15.7 million).

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the resources it receives. If you have questions about this report or need additional information, contact the Accounting Department, City of Cottonwood, 827 North Main Street, Cottonwood, Arizona 86326.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 18,259,103	\$ 7,853,101	\$ 26,112,204
Taxes receivable	1,371,799		1,371,799
Intergovernmental receivable	340,094		340,094
Accounts receivable	214,003	1,008,975	1,222,978
Inventories	26,328		26,328
Total current assets	<u>20,211,327</u>	<u>8,862,076</u>	<u>29,073,403</u>
Noncurrent assets:			
Restricted cash and investments	869,497	2,802,293	3,671,790
Notes receivable		6,430,000	6,430,000
Deferred charges	282,990	1,460,618	1,743,608
Other assets		1,151,535	1,151,535
Land	2,497,195	3,239,645	5,736,840
Infrastructure	18,117,281	41,467,663	59,584,944
Buildings and improvements	35,829,878	5,711,446	41,541,324
Vehicles, machinery, and equipment	9,910,761	2,699,144	12,609,905
Construction in progress	2,480,623	2,237,964	4,718,587
Accumulated depreciation	(24,522,633)	(17,885,516)	(42,408,149)
Total noncurrent assets	<u>45,465,592</u>	<u>49,314,792</u>	<u>94,780,384</u>
Total assets	<u>65,676,919</u>	<u>58,176,868</u>	<u>123,853,787</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,169,046	72,527	1,241,573
Accrued payroll and employee benefits	459,816	9,777	469,593
Deposits held for others	21,177	249,543	270,720
Intergovernmental payable	265,850		265,850
Unearned revenue	31,995	38,698	70,693
Compensated absences payable	814,339	66,696	881,035
Bonds payable	150,000	975,000	1,125,000
Loans payable	1,165,000		1,165,000
Obligations under capital leases	401,480		401,480
Accrued interest payable	378,988	761,935	1,140,923
Total current liabilities	<u>4,857,691</u>	<u>2,174,176</u>	<u>7,031,867</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	16,978,429	32,202,794	49,181,223
Total noncurrent liabilities	<u>16,978,429</u>	<u>32,202,794</u>	<u>49,181,223</u>
Total liabilities	<u>21,836,120</u>	<u>34,376,970</u>	<u>56,213,090</u>
<u>NET POSITION</u>			
Net investment in capital assets	26,606,032	4,306,570	30,912,602
Restricted for:			
Debt service	1,210,126	2,557,755	3,767,881
Grants	161,640		161,640
Unrestricted	15,863,001	16,935,573	32,798,574
Total net position	<u>\$ 43,840,799</u>	<u>\$ 23,799,898</u>	<u>\$ 67,640,697</u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Governmental activities:					
General government	\$ 4,584,034	\$ 1,234,930	\$ 45,215	\$ 19,699	\$ (3,284,190)
Public safety	8,035,427	204,582	246,617		(7,584,228)
Highways and streets	3,134,571	286,118	2,369,721		(478,732)
Culture and recreation	3,561,035	829,139	162,899		(2,568,997)
Interest on long-term debt	810,997				(810,997)
Total governmental activities	<u>20,126,064</u>	<u>2,554,769</u>	<u>2,824,452</u>	<u>19,699</u>	<u>(14,727,144)</u>
Business-type activities:					
Water	6,725,012	5,885,521			
Sewer	2,423,868	1,642,860			
Total business-type activities	<u>9,148,880</u>	<u>7,528,381</u>			
Total primary government	<u>\$ 29,274,944</u>	<u>\$ 10,083,150</u>	<u>\$ 2,824,452</u>	<u>\$ 19,699</u>	<u>(14,727,144)</u>
General revenues:					
Taxes:					
Sales taxes					11,329,353
Auto lieu taxes					563,851
Franchise taxes					363,653
Unrestricted state shared revenue					2,088,713
Investment income					(71,463)
Transfers					<u>(398,256)</u>
Total general revenues and transfers					<u>13,875,851</u>
Changes in net position					(851,293)
Net position, beginning of year					<u>44,692,092</u>
Net position, end of year					<u>\$ 43,840,799</u>

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

Net (Expense) Revenue and
Changes in Net Position

<u>Business-type Activities</u>	<u>Totals</u>
\$	\$ (3,284,190)
	(7,584,228)
	(478,732)
	(2,568,997)
	<u>(810,997)</u>
	<u>(14,727,144)</u>
	(839,491)
	(781,008)
	<u>(1,620,499)</u>
	<u>(1,620,499)</u>
	11,329,353
	563,851
	363,653
	2,088,713
328,570	257,107
398,256	
<u>726,826</u>	<u>14,602,677</u>
(893,673)	(1,744,966)
24,693,571	69,385,663
<u>\$ 23,799,898</u>	<u>\$ 67,640,697</u>

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FUND FINANCIAL STATEMENTS

CITY OF COTTONWOOD, ARIZONA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General</u>	<u>Transit</u>	<u>Grant</u>
<u>ASSETS</u>			
Cash and investments	\$ 5,628,498	\$	\$ 140,151
Restricted cash and investments			
Taxes receivable	1,194,491	11,272	
Intergovernmental receivable	168,243	152,992	18,859
Accounts receivable	141,956	69,417	2,630
Due from other funds	680,918		
Inventories	5,095	21,233	
Total assets	<u>\$ 7,819,201</u>	<u>\$ 254,914</u>	<u>\$ 161,640</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 1,169,046	\$	\$
Accrued payroll and employee benefits	455,337	4,479	
Deposits held for others	7,460	13,717	
Intergovernmental payable	265,850		
Due to other funds		680,918	
Deferred revenue	31,995		
Bonds payable			
Loans payable			
Interest payable			
Total liabilities	<u>1,929,688</u>	<u>699,114</u>	
Fund balances (deficits):			
Nonspendable	5,095	21,233	
Restricted			161,640
Assigned	1,259,750		
Unassigned	4,624,668	(465,433)	
Total fund balances	<u>5,889,513</u>	<u>(444,200)</u>	<u>161,640</u>
Total liabilities and fund balances	<u>\$ 7,819,201</u>	<u>\$ 254,914</u>	<u>\$ 161,640</u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 2,738,078	\$ 9,658,940	\$ 18,165,667
166,036	869,497	869,497
		1,371,799
		340,094
		214,003
		680,918
		26,328
<u>\$ 2,904,114</u>	<u>\$ 10,528,437</u>	<u>\$ 21,668,306</u>

\$	\$	\$ 1,169,046
		459,816
		21,177
		265,850
		680,918
		31,995
150,000		150,000
1,165,000		1,165,000
378,988		378,988
<u>1,693,988</u>		<u>4,322,790</u>

		26,328
1,210,126	869,497	2,241,263
	9,658,940	10,918,690
		4,159,235
<u>1,210,126</u>	<u>10,528,437</u>	<u>17,345,516</u>
<u>\$ 2,904,114</u>	<u>\$ 10,528,437</u>	<u>\$ 21,668,306</u>

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CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total governmental fund balances	\$	17,345,516
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Amounts reported for *governmental activities* in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Governmental capital assets	\$ 68,835,738	
Less accumulated depreciation	<u>(24,522,633)</u>	44,313,105

Deferred items related to the net cost of issuance of bonds are amortized over the life of the associated bond issue in the government-wide statements but not reported in the funds.	282,990
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The Internal Service Fund is used by management to charge the cost of certain activities to the individual funds. The assets and liabilities of the Internal Service Fund are included in the Statement of Net Position.	93,436
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences payable	(932,681)	
Obligations under capital leases	(1,316,417)	
Loans payable	(15,700,000)	
Premium on loans	<u>(245,150)</u>	<u>(18,194,248)</u>

Net position of governmental activities	\$	<u>43,840,799</u>
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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
YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Transit</u>	<u>Grant</u>
Revenues:			
Taxes	\$ 9,500,365	\$ 133,542	\$
Licenses and permits	227,930		
Intergovernmental	3,118,801	1,230,261	24,328
Charges for services	1,485,874	286,118	
Fines and forfeits	175,728		
Rents and royalties	117,969		
Miscellaneous	261,150		
Contributions	8,652		
Investment income	38,250		11
Total revenues	<u>14,934,719</u>	<u>1,649,921</u>	<u>24,339</u>
Expenditures:			
Current -			
General government	3,899,655		
Public safety	6,909,737		
Highways and streets	407,153	1,788,967	
Culture and recreation	2,593,264		
Capital outlay	1,188,853	1,344,930	109,129
Debt service -			
Principal retirement	357,415		
Interest and fiscal charges	22,392		
Total expenditures	<u>15,378,469</u>	<u>3,133,897</u>	<u>109,129</u>
Excess (deficiency) of revenues over expenditures	<u>(443,750)</u>	<u>(1,483,976)</u>	<u>(84,790)</u>
Other financing sources (uses):			
Capital lease agreements	616,574		
Transfers in		1,528,811	84,789
Transfers out	(710,256)	(41,011)	
Total other financing sources (uses):	<u>(93,682)</u>	<u>1,487,800</u>	<u>84,789</u>
Changes in fund balances	<u>(537,432)</u>	<u>3,824</u>	<u>(1)</u>
Fund balances (deficits), beginning of year	6,426,945	(448,024)	161,641
Fund balances (deficits), end of year	<u><u>\$ 5,889,513</u></u>	<u><u>\$ (444,200)</u></u>	<u><u>\$ 161,640</u></u>

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

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
\$ 2,059,099	\$	\$ 11,693,006
		227,930
		4,373,390
		1,771,992
		175,728
		117,969
		261,150
		8,652
14,925	(122,748)	(69,562)
<u>2,074,024</u>	<u>(122,748)</u>	<u>18,560,255</u>
		3,899,655
		6,909,737
		2,196,120
		2,593,264
	1,630,372	4,273,284
1,315,000		1,672,415
785,918		808,310
<u>2,100,918</u>	<u>1,630,372</u>	<u>22,352,785</u>
<u>(26,894)</u>	<u>(1,753,120)</u>	<u>(3,792,530)</u>
		616,574
		1,613,600
	(1,260,589)	(2,011,856)
	<u>(1,260,589)</u>	<u>218,318</u>
<u>(26,894)</u>	<u>(3,013,709)</u>	<u>(3,574,212)</u>
1,237,020	13,542,146	20,919,728
<u>\$ 1,210,126</u>	<u>\$ 10,528,437</u>	<u>\$ 17,345,516</u>

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CITY OF COTTONWOOD, ARIZONA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net changes in fund balances - total governmental funds **\$ (3,574,212)**

Amounts reported for *governmental activities* in the Statement of Activities are different because:

Governmental funds report the portion of capital outlay for capitalized assets as expenditures. However, in the Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Expenditures for capitalized assets	\$ 3,094,481	
Less current year depreciation	<u>(2,407,831)</u>	686,650

Donations of capital assets are not reflected on the governmental fund statements but are shown in the Statement of Activities.		1,119,303
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Issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long term liabilities in the Statement of Net Position.

Obligations under capital leases		(616,574)
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Repayments of long-term debt principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Loan principal retirement	1,165,000	
Bond principal retirement	150,000	
Capital lease principal retirement	357,415	
Amortization of premium	<u>17,407</u>	1,689,822

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 governmental funds.

Deferred charges on issuance of debt	(20,094)	
Loss on disposal of capital assets	(15,592)	
Compensated absences	<u>(105,841)</u>	(141,527)

The Internal Service Fund is used by management to charge the cost of insurance to the individual funds. The changes in net position of the Internal Service Fund is reported with governmental activities in the Statement of Activities.		<u>(14,755)</u>
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Change in net position in governmental activities **\$ (851,293)**

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Enterprise Funds		
	Sewer	Water	Totals
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 1,579,017	\$ 6,274,084	\$ 7,853,101
Accounts receivable	365,963	643,012	1,008,975
Total current assets	<u>1,944,980</u>	<u>6,917,096</u>	<u>8,862,076</u>
Noncurrent assets:			
Restricted cash and investments		2,802,293	2,802,293
Notes receivable		6,430,000	6,430,000
Deferred charges		1,460,618	1,460,618
Other assets		1,151,535	1,151,535
Land	2,814,205	425,440	3,239,645
Infrastructure	19,157,212	22,310,451	41,467,663
Buildings and improvements	4,085,416	1,626,030	5,711,446
Vehicles, machinery, and equipment	1,169,269	1,529,875	2,699,144
Construction in progress	1,744,779	493,185	2,237,964
Accumulated depreciation	(10,178,363)	(7,707,153)	(17,885,516)
Total noncurrent assets	<u>18,792,518</u>	<u>30,522,274</u>	<u>49,314,792</u>
Total assets	<u>20,737,498</u>	<u>37,439,370</u>	<u>58,176,868</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	1,884	70,643	72,527
Accrued payroll and employee benefits	3,591	6,186	9,777
Deposits held for others		249,543	249,543
Unearned revenue		38,698	38,698
Compensated absences payable	20,873	45,823	66,696
Bonds payable		975,000	975,000
Accrued interest payable		761,935	761,935
Total current liabilities	<u>26,348</u>	<u>2,147,828</u>	<u>2,174,176</u>
Noncurrent liabilities:			
Non-current portion of long-term obligations	3,677	32,199,117	32,202,794
Total noncurrent liabilities	<u>3,677</u>	<u>32,199,117</u>	<u>32,202,794</u>
Total liabilities	<u>30,025</u>	<u>34,346,945</u>	<u>34,376,970</u>
<u>NET POSITION</u>			
Net investment in capital assets	18,792,521	(14,485,951)	4,306,570
Restricted for:			
Debt service		2,557,755	2,557,755
Unrestricted	1,914,952	15,020,621	16,935,573
Total net position	<u>\$ 20,707,473</u>	<u>\$ 3,092,425</u>	<u>\$ 23,799,898</u>

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

Governmental
Activities:
Internal Service
Funds

\$ 93,436

93,436

93,436

93,436

\$ 93,436

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise Funds		
	Sewer	Water	Totals
Operating revenues:			
Charges for services	\$ 1,560,763	\$ 5,609,022	\$ 7,169,785
Total operating revenues	<u>1,560,763</u>	<u>5,609,022</u>	<u>7,169,785</u>
Operating expenses:			
Costs of sales and services	1,883,529	3,855,986	5,739,515
Depreciation	540,339	1,287,652	1,827,991
Total operating expenses	<u>2,423,868</u>	<u>5,143,638</u>	<u>7,567,506</u>
Operating income (loss)	<u>(863,105)</u>	<u>465,384</u>	<u>(397,721)</u>
Nonoperating revenues (expenses):			
Investment income	10,312	318,258	328,570
Impact fees	82,097	105,185	187,282
Miscellaneous		171,314	171,314
Interest expense		(1,581,374)	(1,581,374)
Total nonoperating revenues (expenses)	<u>92,409</u>	<u>(986,617)</u>	<u>(894,208)</u>
Income (loss) before transfers	<u>(770,696)</u>	<u>(521,233)</u>	<u>(1,291,929)</u>
Transfers in		<u>398,256</u>	<u>398,256</u>
Changes in net position	<u>(770,696)</u>	<u>(122,977)</u>	<u>(893,673)</u>
Total net position, beginning of year	21,478,169	3,215,402	24,693,571
Total net position, end of year	<u>\$ 20,707,473</u>	<u>\$ 3,092,425</u>	<u>\$ 23,799,898</u>

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

Governmental
Activities:
Internal Service
Funds

\$

12,854

12,854

(12,854)

(1,901)

(1,901)

(14,755)

(14,755)

108,191

\$ 93,436

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Enterprise Funds			Governmental Activities: Internal Service Fund
	Sewer	Water	Total	
<u>Decrease in Cash and Cash Equivalents</u>				
Cash flows from operating activities:				
Cash received from customers	\$ 1,575,844	\$ 5,590,226	\$ 7,166,070	\$
Cash payments to employees for services	(477,717)	(786,742)	(1,264,459)	
Cash payments to suppliers for goods/services	(1,415,998)	(3,114,928)	(4,530,926)	(12,854)
Other nonoperating receipts		171,314	171,314	
Net cash provided by (used for) operating activities	(317,871)	1,859,870	1,541,999	(12,854)
Cash flows from non-capital financing activities:				
Impact fees	82,097	105,185	187,282	
Cash provided by other funds		398,256	398,256	
Net cash provided by (used for) non-capital financing activities	82,097	503,441	585,538	
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(717,395)	(1,039,972)	(1,757,367)	
Principal paid on debt		(965,000)	(965,000)	
Interest paid on debt		(1,544,678)	(1,544,678)	
Collections on notes receivable		142,083	142,083	
Interest earned on notes receivable		312,132	312,132	
Net cash used for capital and related financing activities	(717,395)	(3,095,435)	(3,812,830)	
Cash flows provided by (used for) investing activities:				
Investment income	10,312	6,126	16,438	(113)
Net cash provided by (used for) investing activities	10,312	6,126	16,438	(113)
Net increase (decrease) in cash and cash equivalents	(942,857)	(725,998)	(1,668,855)	(12,967)
Cash and cash equivalents, beginning of year	2,521,874	9,802,375	12,324,249	106,403
Cash and cash equivalents, end of year	\$ 1,579,017	\$ 9,076,377	\$ 10,655,394	\$ 93,436

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position

Cash and investments	\$ 1,579,017	\$ 6,274,084	\$ 7,853,101	\$ 93,436
Restricted cash and investments		2,802,293	2,802,293	
Total cash and cash equivalents	<u>\$ 1,579,017</u>	<u>\$ 9,076,377</u>	<u>\$ 10,655,394</u>	<u>\$ 93,436</u>

Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities

Operating income (loss)	\$ (863,105)	\$ 465,384	\$ (397,721)	\$ (12,854)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	540,339	1,287,652	1,827,991	
Other nonoperating revenues		171,314	171,314	
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	15,081	(33,544)	(18,463)	
Increase in accounts payable		394	394	
Increase (decrease) in accrued payroll and employee benefits	(14,521)	(28,100)	(42,621)	
Increase (decrease) in compensated absences payable	4,335	10,980	15,315	
Increase in deposits held for others		2,060	2,060	
Increase in intergovernmental payable		(28,958)	(28,958)	
(Decrease) in deferred revenue		12,688	12,688	
Total adjustments	<u>545,234</u>	<u>1,394,486</u>	<u>1,939,720</u>	
Net cash provided by (used for) operating activities	<u>\$ (317,871)</u>	<u>\$ 1,859,870</u>	<u>\$ 1,541,999</u>	<u>\$ (12,854)</u>

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Pension Trust</u>
<u>ASSETS</u>	
Cash and investments	<u>\$ 136,970</u>
Total assets	<u>136,970</u>
 <u>NET POSITION</u>	
Held in trust	<u><u>\$ 136,970</u></u>

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

CITY OF COTTONWOOD, ARIZONA
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013

	<u>Pension Trust</u>
Additions:	
Contributions	<u>\$ 27,284</u>
Total additions	<u>27,284</u>
Deductions:	
Benefits	<u>50,319</u>
Total deductions	<u>50,319</u>
Changes in net position	<u>(23,035)</u>
Net position, beginning of year	140,244
Net position, end of year	<u><u>\$ 117,209</u></u>

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

During the year ended June 30, 2013, the City implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 establishes reporting guidance for certain elements of the financial statements which are distinct from assets and liabilities.

The more significant of the City's accounting policies are described below.

A. Reporting Entity

The City's major operations include police and fire protection, parks and recreation, transit services, certain social services and general administrative services. In addition, the City owns and operates enterprise funds which include sewer and water services.

The City is a municipal entity governed by a separately elected governing body. The financial reporting entity consists of a primary government and its component units. A component unit is a legally separate entity that must be included in the reporting entity in conformity with generally accepted accounting principles. The City is a primary government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. Furthermore, the component unit combined with the City for financial statement presentation purposes and the City are not included in any other governmental reporting entity. Consequently, the City's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City and its component unit. For the most part, the effect of internal activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. These statements are to distinguish between the governmental and business-type activities of the City. Governmental activities normally are supported by taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, unrestricted state shared revenues, investment income and other items not 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 funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. As a general rule, the effect of internal activity has been eliminated from the government-wide financial statements; however, the effects of interfund services provided and used between functions are reported as expenses and program revenues at amounts approximating their external exchange value.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fund Financial Statements – 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. However, debt service resources are provided during the current year for payment of long-term debt principal and interest due early in the following year (not to exceed one month) and therefore the expenditures and related liabilities have been recognized. Compensated absences are recorded only when payment is due.

Sales taxes, franchise taxes, state shared revenues, licenses and permits, charges for services, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Miscellaneous revenue is not susceptible to accrual because generally they are not measurable until received in cash. Deferred revenues arise when resources are received by the City before it has legal claim to them, as when grant monies are received prior to meeting all eligibility requirements imposed by the provider.

The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The City reports the following major governmental funds.

General Fund – The General Fund is the City's primary operating fund. This fund accounts for all financial resources of the City, except those required to be accounted for in other funds.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Grant Fund – This 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.

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

Capital Projects Fund – This fund accounts for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The City reports the following major proprietary funds.

Sewer Fund – This fund accounts for the City's sewer utility operations.

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

Additionally, the City reports the following fund types:

Internal Service Fund – 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, 2013.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The Proprietary Fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting.

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 City's enterprise funds are charges to customers for sewer and water services. The principal operating revenues of the City's internal service fund are charges for health and welfare benefits. Operating expenses for these funds include the cost of sales and services, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash and Investments

For purposes of the Statement of Cash Flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents at year end were cash on hand, cash in bank, cash held by fiscal agent and cash and investments held by the State Treasurer.

Cash and investments are pooled, except for investments that are restricted under provisions of bond indentures or other restrictions that are required to be reported in the individual funds. All expenditures of the City are made out of the General Fund's operations account (except for 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.

E. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments. Investment income is a component of revenue in the governmental fund financial statements and of nonoperating revenues in the proprietary fund financial statements.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Interfund balances between governmental funds are eliminated on the Statement of Net Position.

All receivables are shown net of an allowance for uncollectibles.

G. Inventory

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

H. Prepaid Items

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

I. Restricted Assets

Certain proceeds of the City’s bonds and loans, as well as certain resources set aside for their repayment, are classified as restricted cash and investments because their use is limited by applicable loan covenants. In addition, customer deposits for utility services are classified as restricted assets because their use is limited to the repayment to those customers.

J. 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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

K. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, machinery, and equipment, construction in progress, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Infrastructure assets acquired prior to 1980 are not included in the government-wide financial statements. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

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

Capital assets of the City are depreciated using the straight-line method 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

L. Compensated Absences

The City's employee vacation and sick leave policies generally provide for granting vacation and sick leave with pay in varying amounts. Only benefits considered vested are recognized in the financial statements. The liability for vacation and sick leave is reported in the government-wide financial statements and in the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations and retirements. Generally, resources from the General Fund are used to liquidate the governmental funds liabilities for compensated absences.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

M. 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 on the statement of net position. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method 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 other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

O. Net Position Flow Assumption

In the government-wide and proprietary fund financial statements the City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

P. Estimates

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – FUND BALANCE CLASSIFICATIONS

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

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

Restricted. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

Committed. The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action of the City Council, the City's highest level of decision making authority, by resolution or ordinance. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned. Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the City Council or a management official delegated that authority by formal City Council action. The authority to make assignments has been delegated by the City Council to the Administrative Services General Manager pursuant to the City's Financial Operations Guide, Fund Balance Policy XVII.

Unassigned. Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 2 – FUND BALANCE CLASSIFICATIONS (Cont’d)

The City applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

The City has established a minimum fund balance policy for each governmental fund type which contains operating expenses. The minimum unassigned fund balance in the General Fund is not less than 16.66% and not more than 25% of the total revised budgeted operating expenditures. The minimum assigned fund balance for general capital purposes in the General Fund is not less than 2.67% of the total revised budgeted operating revenues and not more than \$1,000,000. The minimum assigned fund balance for public safety capital purposes in the General Fund is not less than \$100,000. The minimum restricted fund balance in the Transit Fund is not less than 5% and not more than 16.66% (60 days) of the total budgeted revenues. The minimum assigned and unassigned fund balance in the Capital Projects Fund must be sufficient to fund all outstanding obligations.

Additionally, the City has established a minimum unrestricted net position policy for the proprietary funds. The minimum unrestricted net position balance for the Water and Sewer Funds is not less than 25% (90 days) and not more than 33.3% (120 days) of the total budgeted operating expenses.

The table below provides detail of the major components of the City’s fund balance classifications at year end.

	<u>General</u>	<u>Transit</u>	<u>Grant</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Fund Balances:					
Nonspendable:					
Inventory	\$ 5,095	\$ 21,233	\$	\$	\$
Restricted:					
Grants			161,640		
Debt Service				1,210,126	
Capital Outlay					869,497
Assigned:					
Capital Outlay	1,214,750				9,658,940
Compensation Study	45,000				
Unassigned	4,624,668	(465,433)			
Total fund balances	<u>\$5,889,513</u>	<u>\$ (444,200)</u>	<u>\$ 161,640</u>	<u>\$ 1,210,126</u>	<u>\$ 10,528,437</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Individual Deficit Fund Balance – At year end, the following major governmental fund reported a deficit in fund balance.

	<u>Deficit</u>
Major Governmental Fund:	
Transit Fund	\$ 444,200

The deficit arose because of operations during previous years. Operating transfers in fiscal year 2013-14 are expected to eliminate the deficit.

Excess Expenditures Over Budget – At year end, the City had expenditures in funds that exceeded the budget; however, this does not constitute a violation of any legal provisions.

NOTE 4 – CASH AND INVESTMENTS

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

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure the City's deposits may not be returned to the City. The City does not have a deposit policy for custodial credit risk. At year end, the carrying amount of the City's deposits was \$4,761,583 and the bank balance was \$5,023,273. At year end, \$2,602,675 of the City's deposits were covered by collateral held by the pledging financial institution in the City's name and \$1,920,598 was uninsured and uncollateralized.

The State Treasurer's pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. The cash with trustee is on deposit and invested in U.S. government securities and bonds.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – CASH AND INVESTMENTS (Cont'd)

At year end, cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows.

Carrying amount of investments	\$ 25,159,381
Carrying amount of cash deposits	<u>4,761,583</u>
Total pooled cash and investments	<u>29,920,964</u>
Pooled cash and investments - unrestricted	26,249,174
Restricted cash and investments	<u>3,671,790</u>
Total pooled cash and investments	<u>\$ 29,920,964</u>

At year end, the City's investments consisted of the following.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less than 1	1-5
U.S. Government Agencies	\$ 12,876,402	\$	\$ 12,876,402
Mutual funds	105,050	105,050	
Cash with trustee	8,380,309	<u>8,380,309</u>	
		<u>\$ 8,485,359</u>	<u>\$ 12,876,402</u>
State Treasurer's investment pool 7	3,797,620	18 days average maturities	
Total	<u>\$ 25,159,381</u>		

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.

Credit Risk. The City has no investment policy that would further limit its investment choices. The State Treasurer's investment pool 7 had a weighted average of AA+ at year end as it was invested in obligations of the U.S. Government or obligations guaranteed by the U.S. Government.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 4 – CASH AND INVESTMENTS (Concl'd)

Concentration of Credit Risk. In accordance with its investment policy, the City diversifies its investment portfolio to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. Total investments in two categories may not exceed 25% of the investment portfolio: (1) fully insured or collateralized certificates of deposit (2) State, county, school district, and other district municipal bonds with an A rating or better. More than 5 percent of the City's investments are in U.S. Treasuries and Agencies. These investments are 52% of the City's total investments.

NOTE 5 – RECEIVABLES

Receivable balances, net of allowance for uncollectibles, have been disaggregated by type and presented separately in the financial statements with the exception of intergovernmental receivables. Intergovernmental receivables, net of allowance for uncollectibles, as of year end for the City's individual major funds are as follows.

	General Fund	Transit Fund	Grant Fund
Due from governmental entities:			
Due from Federal government	\$ 47,922	\$ 78,311	\$
Due from State government	<u>120,321</u>	<u>74,681</u>	<u>18,859</u>
Net due from governmental entities	<u>\$ 168,243</u>	<u>\$ 152,992</u>	<u>\$ 18,859</u>

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

	Unearned
Rental fees received in advance (General Fund)	<u>\$ 31,995</u>
Total deferred revenue for governmental funds	<u><u>\$ 31,995</u></u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 6 – NOTES RECEIVABLE

The City's Water Fund has an intergovernmental utilities purchase agreement with the Town of Clarkdale dated January 1, 2006 to receive principal and interest payments from the Town of Clarkdale for the Town of Clarkdale's portion of Water Revenue Bonds, MPC Series 2006. Assets comprising the Town of Clarkdale's water system were simultaneously sold to the Town of Clarkdale upon issuance of the revenue bonds. Future year receivables to be received by the City under this agreement are as follows:

Year Ending June 30:	Business-type Activities
2014	\$ 160,000
2015	185,000
2016	190,000
2017	200,000
2018	210,000
2019-23	1,200,000
2024-28	1,485,000
2029-33	1,900,000
2034-35	900,000
Total	<u>\$ 6,430,000</u>

NOTE 7 – 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 \$38,856.

	Business-type Activities
Goodwill	\$ 1,474,221
Less: Accumulated amortization	(322,686)
Total	<u>\$ 1,151,535</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 7 – OTHER ASSETS (Concl'd)

The future estimated aggregate amortization expense as of June 30, 2013, was as follows:

Year Ending June 30:	Business-type Activities
2014	\$ 36,856
2015	36,855
2016	36,856
2017	36,855
2018	36,856
2019-23	184,277
2024-28	184,278
2029-33	184,277
2034-38	184,278
2039-43	184,278
2044-45	45,869
Total	<u>\$ 1,151,535</u>

NOTE 8 – CAPITAL ASSETS

A summary of capital asset activity at year end is as follows.

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 2,497,195	\$	\$	\$ 2,497,195
Construction in progress	970,040	2,731,325	1,220,742	2,480,623
Total capital assets, not being depreciated	3,467,235	2,731,325	1,220,742	4,977,818
Capital assets, being depreciated:				
Infrastructure	17,942,701	174,580		18,117,281
Buildings and improvements	34,775,018	1,054,860		35,829,878
Vehicles, machinery and equipment	8,647,041	1,473,761	210,041	9,910,761
Total capital assets being depreciated	61,364,760	2,703,201	210,041	63,857,920
Less accumulated depreciation for:				
Infrastructure	(9,269,283)	(619,400)		(9,888,683)
Buildings and improvements	(7,121,220)	(870,221)		(7,991,441)
Vehicles, machinery and equipment	(5,918,748)	(918,210)	(194,449)	(6,642,509)
Total accumulated depreciation	(22,309,251)	(2,407,831)	(194,449)	(24,522,633)
Total capital assets, being depreciated, net	39,055,509	295,367	15,592	39,335,287
Governmental activities capital assets, net	<u>\$ 42,522,744</u>	<u>\$ 3,026,695</u>	<u>\$ 1,236,334</u>	<u>\$ 44,313,105</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8 – CAPITAL ASSETS (Concl'd)

Business-type Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 3,239,645	\$	\$	\$ 3,239,645
Construction in progress	1,887,170	657,591	306,797	2,237,964
Total capital assets, not being depreciated	5,126,815	657,591	306,797	5,477,609
Capital assets, being depreciated:				
Water Distribution System	21,336,921	973,530		22,310,451
Wastewater System	19,157,212			19,157,212
Buildings and improvements	5,711,446			5,711,446
Vehicles, machinery and equipment	2,266,102	433,042		2,699,144
Total capital assets being depreciated	48,471,681	1,406,572		49,878,253
Less accumulated depreciation for:				
Water Distribution System	(5,712,998)	(932,261)		(6,645,259)
Wastewater System	(7,208,535)	(346,263)		(7,554,798)
Buildings and improvements	(1,986,003)	(148,933)		(2,134,936)
Vehicles, machinery and equipment	(1,186,845)	(363,678)		(1,550,523)
Total accumulated depreciation	(16,094,381)	(1,791,135)		(17,885,516)
Total capital assets, being depreciated, net	32,377,300	(384,563)		31,992,737
Governmental activities capital assets, net	<u>\$ 37,504,115</u>	<u>\$ 273,028</u>	<u>\$ 306,797</u>	<u>\$ 37,470,346</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 285,817
Public safety	494,426
Highways and streets	886,288
Culture and recreation	741,300
Total depreciation expense	<u>2,407,831</u>
Business-type activities:	
Water	1,250,796
Sewer	540,339
Total depreciation expense	<u>\$ 1,791,135</u>

Construction Commitments – At year end, the City had contractual commitments related to various capital projects. At year end the City had spent \$4.7 million on the projects and had estimated remaining contractual commitments of \$14.2 million.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 9 – OBLIGATIONS UNDER CAPITAL LEASES

The City has acquired vehicles and equipment under the provisions of long-term lease agreements classified as capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date. Revenues from the General Fund are used to pay for the governmental activities lease obligations.

The assets acquired through capital leases that meet the City's capitalization threshold are as follows.

	<u>Governmental Activities</u>
Asset:	
Vehicles and equipment	\$ 1,882,869
Less: Accumulated depreciation	<u>(1,052,674)</u>
Total	<u>\$ 830,195</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of year end were as follows.

Year Ending June 30:	<u>Governmental Activities</u>
2014	\$ 429,407
2015	308,168
2016	255,353
2017	255,350
2018	<u>128,826</u>
Total minimum lease payments	1,377,104
Less: amount representing interest	<u>(60,687)</u>
Present value of minimum lease payments	<u>1,316,417</u>
Due within one year	<u>\$ 401,480</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – LOANS PAYABLE

Governmental activities loans payable at year end consisted of the following outstanding loans from the Greater Arizona Development Authority (GADA). The proceeds of the loans were used to finance the Railroad Wash Flood Control Project, the public safety building, the 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 to be repaid in annual principal payments with interest payable semiannually. Sales taxes allocated to the Debt Service Fund are used to pay the debt.

	<u>Original Amount Issued</u>	<u>Interest Rates</u>	<u>Remaining Maturities</u>	<u>Outstanding Principal June 30, 2013</u>	<u>Due Within One Year</u>
Governmental activities:					
The Greater Arizona Development Authority (GADA), Project of 2000	\$ 895,000	6.0%	7/1/13	\$ 95,000	\$ 95,000
The Greater Arizona Development Authority (GADA), Project of 2002	2,500,000	4.5%	7/1/13	260,000	260,000
The Greater Arizona Development Authority (GADA), Project of 2007	19,935,000	4.0-5.0%	7/1/13-27	16,510,000	810,000
Total				<u>\$ 16,865,000</u>	<u>\$ 1,165,000</u>

Annual debt service requirements to maturity on the governmental activities loans payable at year end are summarized as follows.

Year ending June 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,165,000	\$ 742,183
2015	840,000	700,483
2016	875,000	666,183
2017	910,000	630,483
2018	945,000	593,383
2019-23	5,410,000	2,267,011
2024-28	6,720,000	896,504
Total	<u>\$ 16,865,000</u>	<u>\$ 6,496,230</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 10 – LOANS PAYABLE (Concl'd)

Pledged Revenues

The City has pledged certain future revenues to repay the loans as follows.

The City has pledged state shared revenues and sales taxes to repay \$895,000 in governmental Greater Arizona Development Authority (GADA) loans issued in 2000. Proceeds of the loans provided financing of the Railroad Wash Flood Control Project. The loans are payable solely from state shared revenues and sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the loans is \$97,850. The debt principal and interest paid on this debt during fiscal year 2013 was \$98,288 (1% of pledged revenues).

The City has pledged state shared revenues and sales taxes 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the loan is \$265,850. The debt principal and interest paid on this debt during fiscal year 2013 was \$262,213 (2% of pledged revenues).

The City has pledged state shared revenues and sales taxes to repay \$19.9 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 sales taxes and are payable through 2027. The total principal and interest remaining to be paid on the loans is \$22.8 million. The debt principal and interest paid on this debt during fiscal year 2013 was \$1.5 million (11% of pledged revenues).

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 – BONDS PAYABLE

Bonds payable at year end consisted of the following general obligation and revenue bonds. The bonds are both callable and noncallable with interest payable semiannually. Sales taxes allocated to the Debt Service Fund are used to pay the governmental activities bonded debt. Charges for services from the Water Fund are used to pay the business-type activities bonded debt.

	Original Amount Issued	Interest Rates	Remaining Maturities	Outstanding Principal June 30, 2013	Due Within One Year
Governmental activities:					
General Obligation Bonds:					
Project of 1992, Series A (1993)	\$ 900,000	6.0-9.0%	7/1/13	\$ 80,000	\$ 80,000
Project of 1992, Series B (1994)	900,000	2.5%	7/1/13	70,000	70,000
Total				<u>150,000</u>	<u>150,000</u>
Business-type activities:					
Revenue Bonds:					
MPC Series 2004	13,580,000	2.0-5.0%	7/1/13-29	10,975,000	460,000
MPC Series 2006	23,965,000	3.5-5.0%	7/1/13-35	21,750,000	515,000
Total				<u>\$ 32,725,000</u>	<u>\$ 975,000</u>

Annual debt service requirements to maturity on the bonds payable at year end are summarized as follows.

		Governmental Activities	
		Principal	Interest
Year ending June 30,	2014	<u>\$ 150,000</u>	<u>\$ 4,150</u>
		Business-type Activities	
		Principal	Interest
Year ending June 30,	2014	\$ 975,000	\$ 1,524,048
	2015	1,000,000	1,482,773
	2016	1,105,000	1,446,461
	2017	1,140,000	1,405,337
	2018	1,195,000	1,354,712
	2019-23	6,775,000	5,984,217
	2024-28	8,440,000	4,323,588
	2029-33	7,750,000	2,146,250
	2034-36	4,345,000	441,750
Total		<u>\$ 32,725,000</u>	<u>\$ 20,109,136</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 – BONDS PAYABLE (Cont'd)

Pledged Revenues

The City has pledged certain future revenues to repay the bonds as follows.

The City has pledged sales taxes to repay \$900,000 in governmental general obligation bonds issued in 1993. 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the bonds is \$82,400. The debt principal and interest paid on this debt during fiscal year 2013 was \$82,050 (1% of pledged revenues).

The City has pledged sales taxes to repay \$900,000 in governmental general obligation bonds issued in 1993. 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 sales taxes and are payable through 2013. The total principal and interest remaining to be paid on the bonds is \$71,750. The debt principal and interest paid on this debt during fiscal year 2013 was \$70,125 (1% of pledged revenues).

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. The total principal and interest remaining to be paid on the bonds is \$16,219,544. The debt principal and interest paid on this debt during fiscal year 2013 was \$952,440 (41% of pledged revenues).

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 bonds 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. The total principal and interest remaining to be paid on the bonds is \$36,614,592. The debt principal and interest paid on this debt during fiscal year 2013 was \$1,571,870 (67% of pledged revenues).

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11 – BONDS PAYABLE (Concl'd)

Covenants

The business-type senior lien water system revenue bonds issued in 2004 and 2006 have certain covenants. The covenants require the City to maintain 1.35 times coverage of net water system revenues to current year debt service payments. At year end, the City did not satisfy the covenant, as the coverage ratio was .93 times the net water system revenues for the year.

NOTE 12 – CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the current fiscal year was as follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 290,000	\$	\$ 140,000	\$ 150,000	\$ 150,000
Loans payable	17,975,000		1,110,000	16,865,000	1,165,000
Premium on loans	262,557		17,407	245,150	
Obligations under capital leases	1,057,258	616,574	357,415	1,316,417	401,480
Compensated absences payable	826,840	529,135	423,294	932,681	814,339
Governmental activity long-term liabilities	<u>\$ 20,411,655</u>	<u>\$ 1,145,709</u>	<u>\$ 2,048,116</u>	<u>\$ 19,509,248</u>	<u>\$ 2,530,819</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
Bonds payable	\$ 33,690,000	\$	\$ 965,000	\$ 32,725,000	\$ 975,000
Premium on bonds	459,138		20,359	438,779	
Compensated absences payable	65,396	61,776	46,461	80,711	66,696
Business-type activity long-term liabilities	<u>\$ 34,214,534</u>	<u>\$ 61,776</u>	<u>\$ 1,031,820</u>	<u>\$ 33,244,490</u>	<u>\$ 1,041,696</u>

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13 – INTERFUND RECEIVABLES AND PAYABLES

At year end, interfund balances were as follows.

Due to/from other funds:

Due to	Due from General Fund
Transit Fund	\$ 680,918
Total	<u>\$ 680,918</u>

At year end one fund had a negative cash balance in the Treasurer's pooled cash accounts. Negative cash was reduced by interfund borrowing with the General Fund. All interfund balances are expected to be paid within one year.

Interfund transfers:

Transfers out	Transfers in			
	Transit Fund	Grant Fund	Water Fund	Total
General Fund	\$ 268,222	\$ 43,778	\$ 398,256	\$ 710,256
Transit Fund		41,011		41,011
Capital Projects	1,260,589			1,260,589
Total	<u>\$ 1,528,811</u>	<u>\$ 84,789</u>	<u>\$ 398,256</u>	<u>\$ 2,011,856</u>

Transfers between funds were used to ensure that sufficient resources were available to cover expenditures in the applicable funds.

NOTE 14 – CONTINGENT LIABILITIES

Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures/expenses that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

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

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 15 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City was unable to obtain general property and liability insurance at a cost it considered to be economically justifiable. Therefore, the City joined the Arizona Municipal Risk Pool (Pool) as an alternative to escalating general liability insurance costs. The Pool is made up of various towns and cities within Arizona that operate a common risk management and insurance program. The Pool is structured such that member premiums are based on an actuarial review that will provide adequate reserves to allow the Pool to meet its expected financial obligations. The Pool has the authority to assess its' members additional premiums should reserves and annual premiums be insufficient to meet the Pool's obligations.

The City joined the Arizona Public Employers Health Pool (APEHP) for risks of loss related to employee health and accident claims. APEHP is a public entity risk pool currently operating as a common risk management and insurance program for towns and cities in the State. The City pays monthly premiums to APEHP for its employee health and accident insurance coverage. The agreement provides that APEHP will be self-sustaining through members' premiums and will reinsure through commercial companies for claims in excess of specified amounts for each insured event.

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

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

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.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

Plan Descriptions - The City contributes to the two plans as described below.

The *Arizona State Retirement System* (ASRS) benefits are established by state statute and the plan generally provides retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 162 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS

3300 North Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2200 or (800) 621-3778

PSPRS

3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016
(602) 255-5575

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Arizona State Retirement System

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the City's contribution rates for the plans of the ASRS and PSPRS. For the current fiscal year, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.90 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the City was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The City's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

		Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Years ended June 30,				
	2013	\$ 544,567	\$ 34,533	\$ 12,751
	2012	481,799	30,753	11,715
	2011	473,470	31,004	13,137

Public Safety Personnel Retirement System

Funding Policy – For the current fiscal year, active PSPRS police members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 24.79 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.19 percent of covered payroll. Active PSPRS fire members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the City was required to contribute 14.63 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at .91 percent of covered payroll.

Actuarial methods and assumptions – The contribution requirements for the current year end were established by the June 30, 2011 actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

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

Projects of benefits are based on 1) the plans as understood by the City and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the City and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial assumptions used to establish the fiscal year 2012-13 contribution requirements are as follows.

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay closed
Remaining amortization period	25 years for underfunded, 20 years for overfunded
Asset valuation method	7 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.0% - 8.0% for PSPRS
Payroll growth	5.0%
Cost-of-living adjustments	None

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 – PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Cont'd)

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e., transition year) and prior two years is as follows.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension/ OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension/ OPEB Obligation</u>
<u>PSPRS – Police</u>				
Pension	2013	\$ 465,094	100%	-
	2012	411,612	100%	-
	2011	376,342	100%	-
Health Insurance	2013	23,452	100%	-
	2012	23,242	100%	-
	2011	21,963	100%	-
<u>PSPRS – Fire</u>				
Pension	2013	224,047	100%	-
	2012	188,466	100%	-
	2011	137,771	100%	-
Health Insurance	2013	14,860	100%	-
	2012	13,930	100%	-
	2011	10,716	100%	-

Funding Progress - As of June 30, 2013, the most recent actuarial calculation date, the police plan was 45% funded and the firefighters' plan was 83% funded. The actuarial accrued liability for benefits was \$10,003,621 for police and \$4,914,118 for firefighters and the actuarial value of assets was \$4,500,945 for police and \$4,073,625 for firefighters, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,502,676 for police and \$840,493 for firefighters. The covered payrolls (annual payrolls of active employees covered by the plans) were \$1.8 million and \$1.5 million, and the ratio of the UAAL to the covered payroll was 297.9 and 54.4 percent for police and firefighters, respectively. The schedule of funding progress, presented as Required Supplementary Information 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 benefits.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 16 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS (Concl'd)

As of June 30, 2013, the other postemployment benefit plan was 0.0 percent funded for police and fire. The actuarial accrued liability for benefits was \$0.2 million for police and \$0.2 million for fire, and the actuarial value of assets was \$0 for police and fire, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.2 million for police and \$0.2 million for fire. The covered payroll (annual payroll of active employees covered by the plan) was \$1.8 million for police and \$1.5 million for fire, and the ratio of the UAAL to the covered payroll was 11.86 percent for police and 11.33 percent for fire.

NOTE 17 – 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 at least 5.0% of covered compensation which is matched by the City. In addition, the State of Arizona is required by statute to contribute a portion of the annual tax received on fire insurance premiums. During the fiscal year ended June 30, 2013, the City’s required contributions amounted to \$721, while the firefighters’ contributions amounted to \$2,825. The City received a state contribution of \$23,738 during the fiscal year. On behalf payments of fringe benefits and salaries for the government’s employees from the state were recognized as revenues and expenditures in the General Fund during the fiscal year.

CITY OF COTTONWOOD, ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 17 – FIREFIGHTERS’ RELIEF AND PENSION FUND (Concl’d)

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its volunteer firefighters.

The Firefighters’ Relief and Pension Fund held no securities of the City or other related parties during the fiscal year or as of the close of the fiscal year. A separate, audited GAAP-basis postemployment benefit plan was not available.

NOTE 18 – SUBSEQUENT EVENT

Subsequent to June 30, 2013 the City entered into a \$2.0 million, 1.58 percent lease-purchase agreement for the acquisition of water treatment equipment. The lease requires 10 semi-annual lease payments through January 6, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL
YEAR ENDED JUNE 30, 2013

	Original	Final	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>			
Revenues:				
Taxes	\$ 9,112,110	\$ 9,099,455	\$ 9,500,365	\$ 400,910
Licenses and permits	119,675	210,300	227,930	17,630
Intergovernmental	3,707,335	3,213,660	3,118,801	(94,859)
Charges for services	2,794,390	2,988,010	2,769,449	(218,561)
Fines and forfeits	163,310	191,130	175,728	(15,402)
Rents and royalties	91,850	103,605	117,969	14,364
Miscellaneous	294,690	284,350	261,150	(23,200)
Contributions	9,550	9,920	8,652	(1,268)
Investment income	38,070	39,400	38,250	(1,150)
Total revenues	<u>16,330,980</u>	<u>16,139,830</u>	<u>16,218,294</u>	<u>78,464</u>
Expenditures:				
Current -				
General government				
Administration	776,695	780,065	780,675	(610)
Personnel	158,510	197,550	205,047	(7,497)
City council	5,042,310	431,330	403,971	27,359
City clerk	218,755	228,390	228,392	(2)
Natural resource project	167,510	150,515	152,133	(1,618)
Finance department	673,395	340,935	354,210	(13,275)
IT services	169,730	205,350	197,492	7,858
Planning and zoning	329,010	313,370	346,919	(33,549)
Municipal court	431,760	407,985	405,621	2,364
Legal	323,835	320,485	305,458	15,027
Maintenance	587,420	495,140	351,283	143,857
Custodial service	154,200	180,900	167,949	12,951
Non-departmental	425,210	392,910	231,379	161,531
Engineering	487,480	565,580	535,398	30,182
Purchasing	74,120	74,080	72,232	1,848
Cemetery	26,100	20,395	17,325	3,070
Economic development	151,025	187,090	187,677	(587)
Airport	285,730	234,955	240,069	(5,114)
Total general government	<u>10,482,795</u>	<u>5,527,025</u>	<u>5,183,230</u>	<u>343,795</u>
Public safety				
Police department	4,043,215	4,121,040	3,593,596	527,444
Fire department	3,693,955	2,645,880	2,490,539	155,341
Code enforcement	190,750	185,680	185,140	540
Communications	782,795	737,090	640,462	96,628
Total public safety	<u>8,710,715</u>	<u>7,689,690</u>	<u>6,909,737</u>	<u>779,953</u>
Highways and streets				
Public works	406,810	409,400	407,153	2,247
Culture and recreation				
Library	834,835	831,910	799,578	32,332
Parks and recreation	539,365	504,350	413,945	90,405
City pool			100,634	(100,634)
Recreation center operations	1,503,715	1,405,850	1,279,107	126,743
Total culture and recreation	<u>2,877,915</u>	<u>2,742,110</u>	<u>2,593,264</u>	<u>148,846</u>
Capital outlay		27,500	1,188,853	(1,161,353)
Debt service -				
Principal retirement	332,790	344,125	357,415	(13,290)
Interest and fiscal charges			22,392	(22,392)
Total debt service	<u>332,790</u>	<u>344,125</u>	<u>379,807</u>	<u>(35,682)</u>
Total expenditures	<u>22,811,025</u>	<u>16,739,850</u>	<u>16,662,044</u>	<u>77,806</u>
Excess (deficiency) of revenues over expenditures	<u>(6,480,045)</u>	<u>(600,020)</u>	<u>(443,750)</u>	<u>156,270</u>
Other financing sources (uses):				
Capital lease agreements	558,510	613,510	616,574	3,064
Transfers in	786,450	711,300	727,464	16,164
Transfers out	(1,077,850)	(1,070,950)	(1,437,720)	(366,770)
Total other financing sources (uses):	<u>267,110</u>	<u>253,860</u>	<u>(93,682)</u>	<u>(347,542)</u>
Changes in fund balances	<u>(6,212,935)</u>	<u>(346,160)</u>	<u>(537,432)</u>	<u>(191,272)</u>
Fund balances, beginning of year	6,212,935	6,426,945	6,426,945	
Fund balances, end of year	<u>\$</u>	<u>\$ 6,080,785</u>	<u>\$ 5,889,513</u>	<u>\$ (191,272)</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
TRANSIT
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 214,415	\$ 115,150	\$ 133,542	\$ 18,392
Intergovernmental	3,055,255	1,618,650	1,230,261	(388,389)
Charges for services	286,950	368,600	286,118	(82,482)
Miscellaneous		150		(150)
Investment income	181,985	107,420		(107,420)
Total revenues	<u>3,738,605</u>	<u>2,209,970</u>	<u>1,649,921</u>	<u>(560,049)</u>
Expenditures:				
Current -				
Highways and streets	2,971,895	3,051,500	1,788,967	1,262,533
Capital outlay	6,462,790	2,164,865	1,344,930	819,935
Total expenditures	<u>9,434,685</u>	<u>5,216,365</u>	<u>3,133,897</u>	<u>2,082,468</u>
Excess (deficiency) of revenues over expenditures	<u>(5,696,080)</u>	<u>(3,006,395)</u>	<u>(1,483,976)</u>	<u>1,522,419</u>
Other financing sources (uses):				
Transfers in	1,116,860	3,537,500	1,528,811	(2,008,689)
Transfers out	(158,975)	(71,490)	(41,011)	30,479
Issuance of bonds	4,738,195			
Total other financing sources (uses):	<u>5,696,080</u>	<u>3,466,010</u>	<u>1,487,800</u>	<u>(1,978,210)</u>
Changes in fund balances		<u>459,615</u>	<u>3,824</u>	<u>(455,791)</u>
Fund balances (deficits), beginning of year	156,695	(291,030)	(448,024)	(156,994)
Fund balances (deficits), end of year	<u>\$ 156,695</u>	<u>\$ 168,585</u>	<u>\$ (444,200)</u>	<u>\$ (612,785)</u>

See accompanying notes to this schedule.

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GRANT
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 913,510	\$ 25,000	\$ 24,328	\$ (672)
Investment income			11	11
Total revenues	<u>913,510</u>	<u>25,000</u>	<u>24,339</u>	<u>(661)</u>
Expenditures:				
Capital outlay	1,048,995	74,400	109,129	(34,729)
Total expenditures	<u>1,048,995</u>	<u>74,400</u>	<u>109,129</u>	<u>(34,729)</u>
Excess (deficiency) of revenues over expenditures	<u>(135,485)</u>	<u>(49,400)</u>	<u>(84,790)</u>	<u>(35,390)</u>
Other financing sources (uses):				
Transfers in	135,485	48,000	84,789	36,789
Total other financing sources (uses):	<u>135,485</u>	<u>48,000</u>	<u>84,789</u>	<u>36,789</u>
Changes in fund balances	<u></u>	<u>(1,400)</u>	<u>(1)</u>	<u>1,399</u>
Fund balances, beginning of year			161,641	161,641
Fund balances (deficits), end of year	<u>\$</u>	<u>\$ (1,400)</u>	<u>\$ 161,640</u>	<u>\$ 163,040</u>

See accompanying notes to this schedule.

CITY OF COTTONWOOD, ARIZONA
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

The adopted budget of the City is prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America with the following exceptions: 1) indirect costs charged to other funds are budgeted within the General Fund as revenues rather than reductions of expenditures, and 2) intrafund transfers are budgeted as transfers but are eliminated in the fund financial statements. Consequently, the following adjustments were necessary to present actual revenues, actual expenditures, transfers in, and transfers out on a budgetary basis in order to provide a meaningful comparison.

	<u>Total Revenues</u>	<u>Total Expenditures</u>	<u>Transfers in</u>	<u>Transfers Out</u>
Statement of Revenues, Expenditures and Changes in Fund Balances –				
Governmental Funds	\$ 14,934,719	\$ 15,378,469	\$	\$ 710,256
Indirect costs	1,283,575	1,283,575		
Intrafund transfers			727,464	727,464
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	<u>\$ 16,218,294</u>	<u>\$ 16,662,044</u>	<u>\$ 727,464</u>	<u>\$ 1,437,720</u>

CITY OF COTTONWOOD, ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

Schedules of Funding Progress
Cottonwood Police Plan (Pension):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2011	\$ 4,050,241	\$ 8,068,860	\$ 4,018,619	50.2%	\$ 1,787,518	224.8%
2012	4,255,843	9,592,905	5,337,062	44.4%	1,713,476	311.5%
2013	4,500,945	10,003,621	5,502,676	45.0%	1,846,933	297.9%

Cottonwood Fire Plan (Pension):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2011	\$ 3,177,210	\$ 3,789,921	\$ 612,711	83.8%	\$ 1,481,174	41.4%
2012	3,691,051	4,658,825	967,774	79.2%	1,532,169	63.2%
2013	4,073,625	4,914,118	840,493	82.9%	1,546,339	54.4%

Cottonwood Police Plan (Post-Retirement Health Insurance):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2011	-	\$ 228,061	\$ 228,061	0.0%	\$ 1,787,518	12.76%
2012	-	216,518	216,518	0.0%	1,713,476	12.64%
2013	-	219,061	219,061	0.0%	1,846,933	11.86%

Cottonwood Fire Plan (Post-Retirement Health Insurance):

Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-1)/c)
2011	-	\$ 141,655	\$ 141,655	0.0%	\$ 1,481,174	9.56%
2012	-	162,976	162,976	0.0%	1,532,169	10.64%
2013	-	175,201	175,201	0.0%	1,546,338	11.33%

INDIVIDUAL FUND SCHEDULES

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Taxes	\$ 2,072,875	\$ 2,073,935	\$ 2,059,099	\$ (14,836)
Investment income	350	100	14,925	14,825
Total revenues	<u>2,073,225</u>	<u>2,074,035</u>	<u>2,074,024</u>	<u>(11)</u>
Expenditures:				
Debt service -				
Principal retirement	1,315,000	1,315,000	1,315,000	
Interest and fiscal charges	759,035	759,035	785,918	(26,883)
Total expenditures	<u>2,074,035</u>	<u>2,074,035</u>	<u>2,100,918</u>	<u>(26,883)</u>
Changes in fund balances	<u>(810)</u>		<u>(26,894)</u>	<u>(26,894)</u>
Fund balances, beginning of year	1,209,315	1,237,020	1,237,020	
Fund balances, end of year	<u>\$ 1,208,505</u>	<u>\$ 1,237,020</u>	<u>\$ 1,210,126</u>	<u>\$ (26,894)</u>

CITY OF COTTONWOOD, ARIZONA
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	\$ 225,000	\$ 222,925	\$	\$ (222,925)
Investment income	250,000	175,065	(122,748)	(297,813)
Total revenues	<u>475,000</u>	<u>397,990</u>	<u>(122,748)</u>	<u>(520,738)</u>
Expenditures:				
Capital outlay	1,916,655	1,846,060	1,630,372	215,688
Total expenditures	<u>1,916,655</u>	<u>1,846,060</u>	<u>1,630,372</u>	<u>215,688</u>
Excess (deficiency) of revenues over expenditures	<u>(1,441,655)</u>	<u>(1,448,070)</u>	<u>(1,753,120)</u>	<u>(305,050)</u>
Other financing sources (uses):				
Transfers out	(3,600,000)	(2,442,040)	(1,260,589)	1,181,451
Total other financing sources (uses):	<u>(3,600,000)</u>	<u>(2,442,040)</u>	<u>(1,260,589)</u>	<u>1,181,451</u>
Changes in fund balances	<u>(5,041,655)</u>	<u>(3,890,110)</u>	<u>(3,013,709)</u>	<u>876,401</u>
Fund balances, beginning of year	12,672,075	13,542,150	13,542,146	(4)
Fund balances, end of year	<u>\$ 7,630,420</u>	<u>\$ 9,652,040</u>	<u>\$ 10,528,437</u>	<u>\$ 876,397</u>

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STATISTICAL SECTION

The statistical section presents financial statement trends as well as detailed financial and operational information not available elsewhere in the report. The statistical section is intended to enhance the reader's understanding of the information presented in the financial statements, notes to the financial statements, and other supplementary information presented in this report. The statistical section is comprised of the five categories of statistical information presented below.

Financial Trends

These schedules contain information on financial trends to help the reader understand how the City's financial position and financial activities have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the factors affecting the City's ability to generate revenue.

Debt Capacity

These schedules present information to help the reader evaluate the City's current levels of outstanding debt as well as assess the City's ability to make debt payments and/or issue additional debt in the future.

Demographic and Economic Information

These schedules present various demographic and economic indicators to help the reader understand the environment in which the City's financial activities take place and to help make comparisons with other cities.

Operating Information

These schedules contain information about the City's operations and various resources to help the reader draw conclusions as to how the City's financial information relates to the services provided by the City.

Due to cost considerations for the accumulation of data, the City has elected to present less than ten years of data, or data from less than nine years prior, for certain statistical schedules. This information will be accumulated and reported each year until the complete ten years of data is presented.

CITY OF COTTONWOOD, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental activities:					
Net investment in capital assets	\$ 26,606,032	\$ 23,573,513	\$ 22,889,100	\$ 23,242,386	\$ 22,014,425
Restricted	1,371,766	2,034,245	15,552,386	15,770,678	16,794,972
Unrestricted	15,863,001	19,084,334	7,331,500	7,978,540	7,197,482
Total governmental activities net position	<u>\$ 43,840,799</u>	<u>\$ 44,692,092</u>	<u>\$ 45,772,986</u>	<u>\$ 46,991,604</u>	<u>\$ 46,006,879</u>
Business-type activities:					
Net investment in capital assets	\$ 4,306,570	\$ 3,354,977	\$ 7,739,853	\$ 9,625,579	\$ 9,847,238
Restricted	2,557,755	2,557,735			
Unrestricted	16,935,573	18,780,859	17,575,709	16,318,069	16,983,936
Total business-type activities net position	<u>\$ 23,799,898</u>	<u>\$ 24,693,571</u>	<u>\$ 25,315,562</u>	<u>\$ 25,943,648</u>	<u>\$ 26,831,174</u>
Primary government					
Net investment in capital assets	\$ 30,912,602	\$ 26,928,490	\$ 30,628,953	\$ 32,867,965	\$ 31,861,663
Restricted	3,929,521	4,591,980	15,552,386	15,770,678	16,794,972
Unrestricted	32,798,574	37,865,193	24,907,209	24,296,609	24,181,418
Total net position	<u>\$ 67,640,697</u>	<u>\$ 69,385,663</u>	<u>\$ 71,088,548</u>	<u>\$ 72,935,252</u>	<u>\$ 72,838,053</u>

(Continued)

CITY OF COTTONWOOD, ARIZONA
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental activities:					
Net investment in capital assets	\$ 19,879,529	\$ 15,984,073	\$ 13,203,698	\$ 11,768,874	\$ 8,734,998
Restricted	15,803,361	17,373,701	15,078,283	12,240,292	10,392,167
Unrestricted	6,160,664	4,734,579	5,841,777	4,654,070	5,041,344
Total net position	<u>\$ 41,843,554</u>	<u>\$ 38,092,353</u>	<u>\$ 34,123,758</u>	<u>\$ 28,663,236</u>	<u>\$ 24,168,509</u>
Business-type activities:					
Net investment in capital assets	\$ 9,411,516	\$ 6,664,535	\$ 3,026,355	\$ 19,861,056	\$ 20,232,323
Unrestricted	17,757,892	19,720,865	21,354,969	2,308,144	2,251,193
Total net position	<u>\$ 27,169,408</u>	<u>\$ 26,385,400</u>	<u>\$ 24,381,324</u>	<u>\$ 22,169,200</u>	<u>\$ 22,483,516</u>
Primary government					
Net investment in capital assets	\$ 29,291,045	\$ 22,648,608	\$ 16,230,053	\$ 31,629,930	\$ 28,967,321
Restricted	15,803,361	17,373,701	15,078,283	12,349,487	10,392,167
Unrestricted	23,918,556	24,455,444	27,196,746	6,962,214	7,292,537
Total net position	<u>\$ 69,012,962</u>	<u>\$ 64,477,753</u>	<u>\$ 58,505,082</u>	<u>\$ 50,941,631</u>	<u>\$ 46,652,025</u>

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expenses					
Governmental activities:					
General government	\$ 4,584,034	\$ 5,162,738	\$ 5,174,022	\$ 5,611,820	\$ 4,316,367
Public safety	8,035,427	7,364,363	7,319,363	6,632,795	6,229,032
Highways and streets	3,134,571	2,373,133	2,409,649	3,520,748	2,789,376
Culture and recreation	3,561,035	3,347,540	3,092,946	1,499,241	1,210,892
Redevelopment and Housing		120,858	96,330	86,325	76,143
Interest on long-term debt	810,997	822,514	910,875	972,889	1,078,525
Total governmental activities	<u>20,126,064</u>	<u>19,191,146</u>	<u>19,003,185</u>	<u>18,323,818</u>	<u>15,700,335</u>
Business-type activities:					
Water	6,725,012	5,988,525	6,113,747	5,964,337	6,515,516
Sewer	2,423,868	2,176,959	2,083,265	2,020,026	2,175,251
Total business-type activities	<u>9,148,880</u>	<u>8,165,484</u>	<u>8,197,012</u>	<u>7,984,363</u>	<u>8,690,767</u>
Total expenses	<u>29,274,944</u>	<u>27,356,630</u>	<u>27,200,197</u>	<u>26,308,181</u>	<u>24,391,102</u>
Program Revenues					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,234,930	1,740,320	1,037,848	1,270,158	1,246,262
Public safety	204,582	178,281	164,832	161,427	162,592
Highways and Streets	286,118		69,734	85,326	83,937
Culture and Recreation	829,139	913,028	877,905	435,399	204,294
Redevelopment and housing		10,698			
Operating grants and contributions	2,824,452	1,359,992	1,825,975	2,595,064	1,607,763
Capital grants and contributions	19,699	293,486	327,435	1,251,278	1,728,638
Total governmental activities	<u>5,398,920</u>	<u>4,495,805</u>	<u>4,303,729</u>	<u>5,798,652</u>	<u>5,033,486</u>
Business-type activities:					
Charges for services					
Water	5,885,521	5,699,389	5,609,144	5,024,639	6,119,076
Sewer	1,642,860	1,448,862	1,556,036	1,528,026	1,509,393
Total business-type activities	<u>7,528,381</u>	<u>7,148,251</u>	<u>7,165,180</u>	<u>6,552,665</u>	<u>7,628,469</u>
Total program revenues	<u>12,927,301</u>	<u>11,644,056</u>	<u>11,468,909</u>	<u>12,351,317</u>	<u>12,661,955</u>
Net (Expense)/Revenue	<u><u>\$ (16,347,643)</u></u>	<u><u>\$ (15,712,574)</u></u>	<u><u>\$ (15,731,288)</u></u>	<u><u>\$ (13,956,864)</u></u>	<u><u>\$ (11,729,147)</u></u>

(Continued)

CITY OF COTTONWOOD, ARIZONA
EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenses					
Governmental activities:					
General government	\$ 5,431,120	\$ 4,158,178	\$ 3,633,378	\$ 3,391,797	\$ 3,165,670
Public safety	5,823,848	5,340,930	4,999,751	3,955,040	3,754,576
Highways and streets	1,690,237	1,919,302	1,768,236	1,756,480	1,178,261
Culture and recreation	1,461,968	1,570,172	1,072,134	1,188,433	1,219,169
Redevelopment and Housing	5,993	7,726	330,859	12,895	59,157
Interest on long-term debt	782,836	453,033	440,910	433,955	521,391
Total governmental activities	<u>15,196,002</u>	<u>13,449,341</u>	<u>12,245,268</u>	<u>10,738,600</u>	<u>9,898,224</u>
Business-type activities:					
Water	5,806,893	5,357,102	3,091,964	1,829,552	
Sewer	2,111,798	1,741,877	1,783,106	1,647,241	1,756,288
Total business-type activities	<u>7,918,691</u>	<u>7,098,979</u>	<u>4,875,070</u>	<u>3,476,793</u>	<u>1,756,288</u>
Total expenses	<u>23,114,693</u>	<u>20,548,320</u>	<u>17,120,338</u>	<u>14,215,393</u>	<u>11,654,512</u>
Program Revenues					
Governmental activities:					
Fines, Fees and Charges for Services:					
General government	1,272,614	1,106,685	1,291,421	1,061,751	942,135
Public safety	163,902	154,297	155,653	136,062	111,726
Highways and Streets	106,112	102,770	119,723	112,414	73,271
Culture and Recreation	209,570	166,496	133,373	128,879	150,514
Redevelopment and housing					
Operating grants and contributions	1,563,547	1,680,043	1,720,891	1,312,060	1,757,041
Capital grants and contributions	766,878	497,116	1,033,594	1,801,971	607,633
Total governmental activities	<u>4,082,623</u>	<u>3,707,407</u>	<u>4,454,655</u>	<u>4,553,137</u>	<u>3,642,320</u>
Business-type activities:					
Charges for services					
Water	5,484,298	5,992,924	4,316,081	1,330,414	
Sewer	1,556,314	1,510,301	1,473,445	1,537,397	1,365,152
Total business-type activities	<u>7,040,612</u>	<u>7,503,225</u>	<u>5,789,526</u>	<u>2,867,811</u>	<u>1,365,152</u>
Total program revenues	<u>11,123,235</u>	<u>11,210,632</u>	<u>10,244,181</u>	<u>7,420,948</u>	<u>5,007,472</u>
Net (Expense)/Revenue	<u>\$ (11,991,458)</u>	<u>\$ (9,337,688)</u>	<u>\$ (6,876,157)</u>	<u>\$ (6,794,445)</u>	<u>\$ (6,647,040)</u>

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Revenue/(Expense)	\$ (16,347,643)	\$ (15,712,574)	\$ (15,731,288)	\$ (13,956,864)	\$ (11,729,147)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	11,329,353	10,579,983	10,624,971	10,212,304	10,298,594
Auto lieu taxes	563,851	602,832	582,707	590,201	640,922
Franchise taxes	363,653	359,871	240,140	233,128	201,322
Unrestricted state shared revenue	2,088,713	1,831,024	1,890,634	2,199,106	2,487,459
Investment income	(71,463)	240,737	142,386	275,152	1,201,877
Transfers	<u>(398,256)</u>	<u></u>	<u></u>	<u></u>	<u></u>
Total governmental activities	<u>13,875,851</u>	<u>13,614,447</u>	<u>13,480,838</u>	<u>13,509,891</u>	<u>14,830,174</u>
General Revenues:					
Business-type activities:					
Impact fees					
Investment income	328,570	395,242	390,179	543,340	724,064
Gain of disposal of capital assets			13,567	832	
Transfers	<u>398,256</u>	<u></u>	<u></u>	<u></u>	<u></u>
Total business-type activities	<u>726,826</u>	<u>395,242</u>	<u>403,746</u>	<u>544,172</u>	<u>724,064</u>
Changes in Net Position	<u>\$ (1,744,966)</u>	<u>\$ (1,702,885)</u>	<u>\$ (1,846,704)</u>	<u>\$ 97,199</u>	<u>\$ 3,825,091</u>

CITY OF COTTONWOOD, ARIZONA
GENERAL REVENUES AND TOTAL CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net Revenue/(Expense)	\$ (11,991,458)	\$ (9,337,688)	\$ (6,876,157)	\$ (6,794,445)	\$ (6,647,040)
General Revenues:					
Governmental activities:					
Taxes:					
Sales taxes	10,102,433	10,247,957	10,073,924	7,865,948	7,262,398
Auto lieu taxes	667,929	690,992	695,836	615,579	579,864
Franchise taxes	226,368	221,675	215,249	200,448	
Unrestricted state shared revenue	2,526,405	2,265,211	1,943,837	1,694,149	1,599,897
Investment income (loss)	1,341,445	1,028,744	637,714	304,066	201,095
Transfers		(744,050)	(315,425)		
Total governmental activities	<u>14,864,580</u>	<u>13,710,529</u>	<u>13,251,135</u>	<u>10,680,190</u>	<u>9,643,254</u>
General Revenues:					
Business-type activities:					
Impact fees	148,861	123,038	457,503	292,026	462,773
Investment income	951,471	732,742	408,032	111,345	37,509
Other			7,513	490	1,407
Transfers		744,050	315,425		
Total business-type activities	<u>1,100,332</u>	<u>1,599,830</u>	<u>1,188,473</u>	<u>403,861</u>	<u>501,689</u>
Changes in Net Position	<u>\$ 3,973,454</u>	<u>\$ 5,972,671</u>	<u>\$ 7,563,451</u>	<u>\$ 4,289,606</u>	<u>\$ 3,497,903</u>

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

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Accrual basis of accounting)

<u>Year</u>	<u>Sales taxes</u>	<u>Occupancy taxes</u>	<u>Franchise taxes</u>	<u>Utility taxes</u>	<u>Total</u>
2013	\$ 11,014,097	\$ 105,538	\$ 363,653	\$ 209,718	\$ 11,693,006
2012	10,265,355	104,143	359,871	210,485	10,939,854
2011	10,319,948	101,677	240,140	203,346	10,865,111
2010	9,925,087	93,694	233,128	193,523	10,445,432
2009	10,007,515	118,169	201,322	172,910	10,499,916
2008	9,809,638	117,091	226,368	175,704	10,328,801
2007	9,996,301	84,362	221,675	167,294	10,469,632
2006	9,849,837	84,108	215,249	139,979	10,289,173
2005	7,690,663	71,998	200,448	103,287	8,066,396
2004	6,907,731	66,026	194,534	94,107	7,262,398

Sources: The City of Cottonwood, Arizona's Finance Department

Note: 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 - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Fund:					
Nondisposable	\$ 5,095	\$ 35,436	\$ 36,961	\$	\$
Assigned	1,259,750	2,214,190			
Unassigned	4,624,668	4,177,319	7,018,946		
Reserved				17,389	10,971
Unreserved				7,105,988	5,620,578
Total General Fund	<u>\$ 5,889,513</u>	<u>\$ 6,426,945</u>	<u>\$ 7,055,907</u>	<u>\$ 7,123,377</u>	<u>\$ 5,631,549</u>
All Other Governmental Funds:					
Nondisposable	\$ 21,233	\$ 31,164	\$ 11,450	\$	\$
Restricted	2,241,263	2,034,245	15,540,936		
Assigned	9,658,940	12,906,562			
Unassigned	(465,433)	(479,188)			
Reserved				2,567,487	2,607,657
Unreserved, reported in:					
Special revenue funds				1,096,519	1,795,343
Capital projects funds				14,152,370	28,421,851
Debt service fund				(1,357,358)	(1,328,207)
Total all other governmental funds	<u>\$ 11,456,003</u>	<u>\$ 14,492,783</u>	<u>\$ 15,552,386</u>	<u>\$ 16,459,018</u>	<u>\$ 31,496,644</u>
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Fund:					
Reserved	7,171	8,634	10,181	8,617	7,345
Unreserved	4,594,856	2,739,761	3,906,175	2,749,476	3,011,469
Total General Fund	<u>\$ 4,602,027</u>	<u>\$ 2,748,395</u>	<u>\$ 3,916,356</u>	<u>\$ 2,758,093</u>	<u>\$ 3,018,814</u>
All Other Governmental Funds:					
Reserved	309,368	5,068,960	5,061,148	5,061,148	5,066,448
Unreserved, reported in:					
Special revenue funds	1,867,639	793,167	586,077	129,173	145,344
Capital projects funds	32,170,394	1,214,506	1,292,734	1,245,289	1,212,512
Debt service fund	1,335,401	10,449,717	8,261,550	5,843,855	4,118,507
Total all other governmental funds	<u>\$ 35,682,802</u>	<u>\$ 17,526,350</u>	<u>\$ 15,201,509</u>	<u>\$ 12,279,465</u>	<u>\$ 10,542,811</u>

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

Note: The provisions of the Governmental Accounting Standards Board (GASB) Statement No. 54 were adopted in fiscal year 2011. The standard replaces the previous reserved and unreserved fund balance categories with the following five fund balance classifications: nondisposable, restricted, committed, assigned, and unassigned fund balance.

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS REVENUES
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Taxes	\$ 11,693,006	\$ 10,939,854	\$ 10,865,111	\$ 10,445,432	\$ 10,499,916
Licenses and permits	227,930	120,239	141,637	164,880	250,544
Intergovernmental	4,373,390	3,953,440	4,618,408	6,634,866	6,464,915
Charges for services	1,771,992	2,322,410	1,780,365	1,767,486	1,359,950
Fines and forfeits	175,728	220,557	167,312	144,122	150,913
Rents and royalties	117,969	95,311	114,985	113,126	81,337
Miscellaneous	261,150	83,810	123,955	137,220	183,708
Contributions	8,652	133,894	8,343	783	1,297
Investment income	(69,562)	239,608	142,754	272,061	1,196,820
Total revenues	\$ 18,560,255	\$ 18,109,123	\$ 17,962,870	\$ 19,679,976	\$ 20,189,400
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Taxes	\$ 10,328,801	\$ 10,469,632	\$ 10,289,173	\$ 8,066,396	\$ 7,262,398
Licenses and permits	406,296	437,983	575,266	514,256	399,709
Intergovernmental	5,506,436	5,117,564	5,145,641	5,420,044	4,536,910
Charges for services	1,170,904	952,151	840,152	786,746	721,605
Fines and forfeits	201,539	197,862	217,603	188,403	136,045
Rents and royalties	99,654	93,460	73,865		
Miscellaneous	129,259	90,547	181,122	154,097	224,450
Contributions	18,323	15,798	619		
Investment income	1,331,015	1,019,753	631,846	300,983	199,159
Total revenues	\$ 19,192,227	\$ 18,394,750	\$ 17,955,287	\$ 15,430,925	\$ 13,480,276

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

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expenditures:					
Current -					
General government	\$ 3,899,655	\$ 4,909,750	\$ 4,561,617	\$ 5,207,435	\$ 4,587,995
Public safety	6,909,737	6,843,873	6,908,826	6,634,825	5,774,540
Highways and street	2,196,120	1,788,597	1,940,247	3,078,858	3,568,798
Culture and recreation	2,593,264	2,437,903	2,269,302	1,685,493	1,662,528
Redevelopment and housing		113,931	96,565	89,036	72,333
Capital outlay	4,273,284	1,872,067	738,814	14,438,028	5,175,228
Debt service -					
Principal retirement	1,672,415	1,612,775	1,513,413	1,501,347	1,428,775
Interest on long-term debt	808,310	819,827	908,188	970,202	1,075,839
Bond issuance costs					
Total expenditures	<u>\$ 22,352,785</u>	<u>\$ 20,398,723</u>	<u>\$ 18,936,972</u>	<u>\$ 33,605,224</u>	<u>\$ 23,346,036</u>
Expenditures for capitalized assets	\$ 4,213,784	\$ 1,751,100	\$ 1,166,761	\$ 15,341,751	\$ 7,748,356
Debt service as a percentage of noncapital expenditures	14%	13%	14%	14%	16%

(Continued)

CITY OF COTTONWOOD, ARIZONA
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenditures:					
Current -					
General government	\$ 4,953,976	\$ 4,050,855	\$ 3,527,813	\$ 3,291,331	\$ 2,748,927
Public safety	6,188,641	6,073,567	4,792,440	3,888,439	3,700,437
Highways and street	2,057,739	1,926,129	1,296,764	2,576,666	1,206,585
Culture and recreation	1,839,829	2,055,696	1,557,929	1,647,340	1,174,615
Redevelopment and housing	2,967		324,972	7,420	45,317
Capital outlay	3,101,630	209,127	19,406	4,841	1,527,010
Debt service -					
Principal retirement	875,000	2,225,000	2,170,000	2,105,000	2,050,000
Interest on long-term debt	780,374	404,129	440,910	433,955	521,391
Bond issuance costs	401,879				
Total expenditures	<u>\$ 20,202,035</u>	<u>\$ 16,944,503</u>	<u>\$ 14,130,234</u>	<u>\$ 13,954,992</u>	<u>\$ 12,974,282</u>
Expenditures for capitalized assets	\$ 5,061,717	\$ 2,331,458	\$ 1,178,862	\$ 2,063,360	\$ 2,510,219
Debt service as a percentage of noncapital expenditures	14%	18%	20%	21%	25%

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
OTHER FINANCING SOURCES AND USES AND NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Modified accrual basis of accounting)

	Fiscal Year Ended June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Excess (deficiency) of revenues over expenditures	\$ (3,792,530)	\$ (2,289,600)	\$ (974,102)	\$ (13,925,248)	\$ (3,156,636)
Other financing sources (uses):					
Issuance of long-term debt					
Premium on issuance of long-term debt					
Capital lease agreements	616,574	601,035		379,450	
Transfers in	1,613,600			807,565	769,960
Transfers out	(2,011,856)			(807,565)	(769,960)
Total other financing sources (uses)	<u>218,318</u>	<u>601,035</u>		<u>379,450</u>	
Changes in fund balances	<u>\$ (3,574,212)</u>	<u>\$ (1,688,565)</u>	<u>\$ (974,102)</u>	<u>\$ (13,545,798)</u>	<u>\$ (3,156,636)</u>
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Excess (deficiency) of revenues over expenditures	\$ (1,009,808)	\$ 1,450,247	\$ 3,825,053	\$ 1,475,933	\$ 505,994
Other financing sources (uses):					
Issuance of long-term debt	19,935,000				
Premium on issuance of long-term debt	348,142				
Capital lease agreements	736,750	450,683	570,679		
Transfers in	15,639,553	1,719,306	1,171,803	1,082,493	2,171,893
Transfers out	(15,639,553)	(2,463,356)	(1,487,228)	(1,082,493)	(2,171,893)
Total other financing sources (uses)	<u>21,019,892</u>	<u>(293,367)</u>	<u>255,254</u>		
Changes in fund balances	<u>\$ 20,010,084</u>	<u>\$ 1,156,880</u>	<u>\$ 4,080,307</u>	<u>\$ 1,475,933</u>	<u>\$ 505,994</u>

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

CITY OF COTTONWOOD, ARIZONA
TAXABLE SALES BY CATEGORY
LAST TEN CALENDAR YEARS
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Construction	\$ 14,271	\$ 12,410	\$ 14,738	\$ 29,358	\$ 31,422
Manufacturing	5,739	5,803	6,026	5,998	7,647
Communications and utilities	12,483	12,786	12,226	12,768	5,662
Wholesale Trade	2,433	2,005	2,321	2,371	2,914
Retail Trade	252,096	236,753	227,250	226,677	235,180
Restaurants and Bars	30,583	29,636	27,550	27,579	27,731
Real estate, rental and lease	33,675	31,397	33,370	32,897	33,894
Hotels and Other Lodging	7,585	7,443	7,172	7,576	5,640
Services	8,786	8,359	8,127	8,168	8,208
All Others Not Specified	5,256	5,347	5,566	4,678	6,391
Total	\$ 372,907	\$ 351,939	\$ 344,346	\$ 358,070	\$ 364,689

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Construction	\$ 50,977	\$ 24,263	\$ 26,775	\$ 29,591	\$ 27,182
Manufacturing	9,782	10,679	10,489	10,182	7,182
Communications and utilities	5,651	5,651	5,387	7,409	4,864
Wholesale Trade	3,943	3,952	4,356	3,455	4,318
Retail Trade	277,900	310,058	292,781	231,227	106,591
Restaurants and Bars	29,610	31,504	27,845	23,909	21,364
Real estate, rental and lease	38,711	40,134	41,707	32,500	22,227
Hotels and Other Lodging	11,425	6,180	5,988	5,500	5,091
Services	8,983	8,582	8,639	8,727	12,636
All Others Not Specified		6,901	7,013	5,043	109,811
Total	\$ 436,982	\$ 447,904	\$ 430,980	\$ 357,543	\$ 321,266

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

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

**CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING SALES TAX RATES
LAST TEN FISCAL YEARS**

Overlapping Rates			
Fiscal Year Ended June 30	City of Cottonwood	Yavapai County	State of Arizona
2013	3.00	0.75	5.60
2012	3.00	0.75	6.60
2011	3.00	0.75	6.60
2010	3.00	0.75	6.60
2009	3.00	0.75	5.60
2008	2.20	0.75	5.60
2007	2.20	0.75	5.60
2006	2.20	0.75	5.60
2005	2.20	0.70	5.60
2004	2.20	0.70	5.60

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

**CITY OF COTTONWOOD, ARIZONA
OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Governmental Activities				Business-type Activities	Total Outstanding Debt		
	General Obligation and Other Bonds	Notes and Loans Payable	Capital Leases	Total	Revenue Bonds	Total Debt	Percentage of Personal Income	Per Capita
2013	\$ 150,000	\$ 16,865,000	\$ 1,316,417	\$ 18,331,417	\$ 32,725,000	\$ 51,056,417	13.67 %	\$ 4,323
2012	290,000	17,975,000	1,057,258	19,322,258	33,690,000	53,012,258	14.42	4,668
2011	290,000	17,975,000	819,000	19,084,000	33,690,000	52,774,000	14.22	4,685
2010	425,000	19,045,000	1,127,000	20,597,000	34,610,000	55,207,000	13.76	4,533
2009	550,000	20,075,000	1,094,000	21,719,000	35,515,000	57,234,000	14.27	4,699
2008	670,000	21,060,000	1,418,000	23,148,000	36,380,000	59,528,000	14.93	5,287
2007	780,000	1,890,000	952,000	3,622,000	37,005,000	40,627,000	11.60	3,650
2006	1,740,000	3,155,000	698,000	5,593,000	37,305,000	42,898,000	12.56	3,927
2005	2,650,000	4,415,000	174,000	7,239,000	13,580,000	20,819,000	6.24	1,917
2004	3,515,000	5,655,000	219,000	9,389,000		9,389,000	3.04	880

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

**CITY OF COTTONWOOD, ARIZONA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Excise tax Backed Bonds</u>	<u>Taxable Sales</u>	<u>Percentage of outstanding bonds to taxable sales</u>	<u>Population</u>	<u>Net general obligation bonded debt per capita</u>
2013	\$ 150,000	\$372,907,000	0.04 %	11,810	\$ 12.70
2012	290,000	351,940,000	0.08	11,356	25.54
2011	290,000	344,346,000	0.08	11,265	25.74
2010	425,000	358,070,000	0.12	12,180	34.89
2009	550,000	364,689,000	0.15	12,180	45.16
2008	670,000	436,982,000	0.15	11,260	59.50
2007	780,000	447,904,000	0.17	11,130	70.08
2006	1,740,000	430,980,000	0.40	10,925	159.27
2005	2,650,000	357,543,000	0.74	10,860	244.01
2004	3,515,000	321,266,000	1.09	10,665	329.58

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

CITY OF COTTONWOOD, ARIZONA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
JUNE 30, 2013

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Amount Overlapping Debt</u>
Overlapping Debt:			
Yavapai County	\$ 2,470,000	100.00%	\$ 2,470,000
Yavapai Community College	40,470,000	4.55%	1,841,385
Mingus Union High School District	12,326,706	44.98%	5,544,552
Total Overlapping Debt			<u>9,855,937</u>
Direct:			
City of Cottonwood			<u>18,331,417</u>
Total Direct Debt			<u><u>\$ 28,187,354</u></u>

Source: Arizona Department of Revenue.

Note: Proportion applicable to the City of Cottonwood, Arizona is computed on the ratio of net secondary assessed valuation for 2011-12.

**CITY OF COTTONWOOD, ARIZONA
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Total Legal Debt Margin Calculation for Fiscal Year 2013:

Secondary assessed valuation	\$ 105,439,689
Debt limit (6%)	6,326,381
Debt applicable to limit	
Legal debt margin	<u><u>\$ 6,326,381</u></u>

Total Legal Debt Margin Calculation for Fiscal Year 2013:

Secondary assessed valuation	\$ 105,439,689
Debt limit (20%)	21,087,938
Debt applicable to limit	
Legal debt margin	<u><u>\$ 21,087,938</u></u>

	Fiscal Year Ended June 30									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total 20% debt limit	\$ 21,087,938	\$ 24,518,865	\$ 28,743,703	\$ 29,279,209	\$ 29,252,149	\$ 24,190,654	\$ 21,149,383	\$ 18,437,838	\$ 16,651,467	\$ 15,557,339
Total net debt applicable to 20% limit										
Legal 20% debt margin	<u><u>\$ 21,087,938</u></u>	<u><u>\$ 24,518,865</u></u>	<u><u>\$ 28,743,703</u></u>	<u><u>\$ 29,279,209</u></u>	<u><u>\$ 29,252,149</u></u>	<u><u>\$ 24,190,654</u></u>	<u><u>\$ 21,149,383</u></u>	<u><u>\$ 18,437,838</u></u>	<u><u>\$ 16,651,467</u></u>	<u><u>\$ 15,557,339</u></u>
Total net debt applicable to the 20% limit as a percentage of 20% debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total 6% debt limit	\$ 6,326,381	\$ 7,355,660	\$ 8,623,111	\$ 8,783,763	\$ 8,775,645	\$ 7,257,196	\$ 6,344,815	\$ 5,531,351	\$ 4,995,440	\$ 4,667,202
Total net debt applicable to 6% limit										
Legal 6% debt margin	<u><u>\$ 6,326,381</u></u>	<u><u>\$ 7,355,660</u></u>	<u><u>\$ 8,623,111</u></u>	<u><u>\$ 8,783,763</u></u>	<u><u>\$ 8,775,645</u></u>	<u><u>\$ 7,257,196</u></u>	<u><u>\$ 6,344,815</u></u>	<u><u>\$ 5,531,351</u></u>	<u><u>\$ 4,995,440</u></u>	<u><u>\$ 4,667,202</u></u>
Total net debt applicable to the 6% limit as a percentage of 6% debt limit	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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

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

**CITY OF COTTONWOOD, ARIZONA
PLEDGED REVENUE COVERAGE
LAST NINE FISCAL YEARS**

Water Revenue Bonds						
Fiscal Year	Water Charges and Other (1)	Less: Operating Expenses (2)	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2013	\$ 6,203,779	\$ 3,855,986	\$ 2,347,793	\$ 965,000	\$ 1,559,310	0.93
2012	6,046,477	3,627,892	2,418,585	920,000	1,592,304	0.96
2011	5,987,454	3,109,285	2,878,169	920,000	1,561,373	1.16
2010	5,499,709	3,296,423	2,203,286	905,000	1,624,304	0.87
2009	6,695,522	3,868,029	2,827,493	865,000	1,653,779	1.12
2008	6,250,028	3,158,315	3,091,713	625,000	1,672,104	1.35
2007	6,633,214	2,782,507	3,850,707	300,000	1,678,854	1.95
2006	4,641,070	1,464,254	3,176,816	240,000	1,084,643	2.40
2005	1,385,599	916,353	469,246		425,007	1.10

General Obligation Bonds				
Fiscal Year (3)	Transaction Privilege (Sales) Taxes	Debt Service Principal	Debt Service Interest	Coverage
2013	\$ 11,329,353	\$ 140,000	\$ 12,175	74.45
2012	10,579,983	135,000	23,500	66.75
2011	7,794,838	135,000	23,500	49.18
2010	7,455,750	125,000	30,400	47.98
2009	6,889,345	120,000	37,000	43.88
2008	7,885,943	110,000	42,995	51.54

General Arizona Development Authority Loans				
Fiscal Year (3)	Pledged Revenues	Debt Service Principal	Debt Service Interest	Coverage
2013	\$ 13,418,066	\$ 1,110,000	\$ 749,675	7.22
2012	12,411,007	1,070,000	977,703	6.06
2011	11,576,006	1,070,000	842,577	6.05
2010	11,853,962	1,030,000	885,492	6.19
2009	11,864,263	985,000	926,613	6.21
2008	12,938,753	765,000	726,245	8.68

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

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

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

3) Information prior to 2008 is not available.

**CITY OF COTTONWOOD, ARIZONA
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

<u>Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Income</u>	<u>School Enrollment</u>	<u>City of Cottonwood Unemployment Rate</u>
2013	11,810	\$373,396,770	\$ 31,617	3,102	7.90 %
2012	11,356	367,536,940	29,586	2,889	8.20 ²
2011	11,265 ¹	371,012,775	32,935	3,108	10.40 ²
2010	12,180	401,148,300	32,935	2,722	9.70
2009	12,180	401,148,300	32,935	2,876	9.10
2008	11,260	398,795,420	35,417	3,369	5.10
2007	11,130	350,127,540	31,458	3,008	3.70
2006	10,925	341,425,720	31,252	3,190	3.90
2005	10,860	333,904,040	30,746	3,432	3.90
2004	10,665	309,135,690	28,986	2,981	3.60

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

¹ U.S. Census Bureau 2010 Census

² Yavapai County Unemployment Rate

**CITY OF COTTONWOOD, ARIZONA
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE FISCAL YEARS AGO**

Employer	2013		2004	
	Employees	Percentage of Total Employment	Employees	Percentage of Total Employment
Verde Valley Medical Center	1,000	20.14 %	700	22.03 %
Wal-Mart	370	7.45	500	15.73
Cottonwood Oak Creek Schools	262	5.28	119	3.74
City of Cottonwood	193	3.89	118	3.71
Home Depot	150	3.02	150	4.72
Fry's	130	2.62	125	3.93
Verde Valley Guidance Clinic	120	2.42	120	3.78
Mingus Union High School	117	2.36	150	4.72
Safeway	105	2.11	103	3.24
Oxendales	70	1.41	70	2.20
Larry Greens	55	1.11	55	1.73
Food City	55	1.11	72	2.27
Total	<u>2,627</u>	<u>52.92 %</u>	<u>2,282</u>	<u>71.80 %</u>
Total employment	<u>4,965</u>		<u>3,178</u>	

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

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Full-time Equivalent Employees as of June 30				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Government					
Management Services	15.8	14.8	10.8	11.8	8.8
Finance	3.2	4.2	4.2	4.2	4.2
Planning	6.0	4.0	6.0	6.0	6.0
Building	6.5				3.5
Legal	1.0	1.0	1.0		
Court	6.0	6.0	6.0	6.0	5.0
Total general government	<u>38.5</u>	<u>30.0</u>	<u>28.0</u>	<u>28.0</u>	<u>27.5</u>
Public Safety					
Police	48.5	49.5	46.5	47.5	47.5
Firefighters	<u>28.0</u>	<u>28.0</u>	<u>29.0</u>	<u>29.0</u>	<u>16.0</u>
Total public safety	<u>76.5</u>	<u>77.5</u>	<u>75.5</u>	<u>76.5</u>	<u>63.5</u>
Public Works					
Engineering	5.0	6.0	6.0	6.0	4.5
Others	4.0	4.0	3.0	3.0	
Streets	<u>5.5</u>	<u>5.5</u>	<u>5.0</u>	<u>6.0</u>	<u>6.5</u>
Total public works	<u>14.5</u>	<u>15.5</u>	<u>14.0</u>	<u>15.0</u>	<u>11.0</u>
Parks and Recreation	<u>12.0</u>	<u>19.5</u>	<u>21.0</u>	<u>21.0</u>	<u>13.0</u>
Library	11.0	11.0	10.0	11.0	11.0
Water	18.8	18.1	17.3	16.2	16.8
Sewer	10.8	10.4	10.3	10.4	10.3
Transit	<u>11.0</u>		<u>11.0</u>	<u>11.0</u>	<u>11.0</u>
Total	<u><u>193.1</u></u>	<u><u>182.0</u></u>	<u><u>187.1</u></u>	<u><u>189.1</u></u>	<u><u>164.1</u></u>

(Continued)

CITY OF COTTONWOOD, ARIZONA
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Full-time Equivalent Employees as of June 30				
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Government					
Management Services	7.8	6.8	5.3	5.3	5.3
Finance	4.2	4.2	2.7	2.7	2.7
Planning	6.5	6.5	6.5	6.5	6.5
Building	3.5	3.5	3.5	2.5	2.5
Legal		2.0	2.0		
Court	6.0	6.0	6.0	3.5	3.5
Total general government	<u>28.0</u>	<u>29.0</u>	<u>26.0</u>	<u>20.5</u>	<u>20.5</u>
Public Safety					
Police	47.0	47.0	45.0	44.0	42.0
Firefighters	16.0	16.0	16.0	14.0	12.0
Total public safety	<u>63.0</u>	<u>63.0</u>	<u>61.0</u>	<u>58.0</u>	<u>54.0</u>
Public Works					
Engineering	4.5	4.5	3.3	3.3	3.3
Others					
Streets	6.5	6.5	6.3	6.5	6.5
Total public works	<u>11.0</u>	<u>11.0</u>	<u>9.6</u>	<u>9.8</u>	<u>9.8</u>
Parks and Recreation	<u>13.0</u>	<u>13.0</u>	<u>13.0</u>	<u>11.0</u>	<u>11.0</u>
Library	11.0	11.0	9.0	8.0	9.0
Water	17.2	16.2	9.3		
Sewer	9.8	9.8	9.3	8.3	8.3
Transit	<u>11.0</u>	<u>10.0</u>	<u>8.0</u>	<u>8.0</u>	<u>6.0</u>
Total	<u><u>164.0</u></u>	<u><u>163.0</u></u>	<u><u>145.2</u></u>	<u><u>123.6</u></u>	<u><u>118.6</u></u>

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

(Concluded)

CITY OF COTTONWOOD, ARIZONA
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	Fiscal Year Ended June 30									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Function</u>										
General Government										
Building Permits Issued	291	251	208	205	240	454	440	830	767	485
Police										
Physical Arrests	1,355	1,564	1,292	1,675	1,596	1,325	1,584	1,230	953	923
Parking Violations	108	75	127	86	N/A	1	10	68	114	68
Traffic Violations	2,152	1,850	1,607	2,261	1,348	1,872	1,820	2,405	2,679	2,322
Fire										
Emergency Responses	2,699	2,804	2,550	2,377	2,478	2,455	2,356	1,970	1,970	1,580
Fires Extinguished	208	247	242	211	252	181	183	225	161	170
Inspections	1,650	1,559	2,063	1,865	1,805	1,287	654	1,001	1,001	649
Other Public Works										
Street Resurfacing (Miles)	1	N/A	8.25	6	N/A	N/A	N/A	2	8	N/A
Library										
Volumes in Collection	104,052	96,673	102,015	89,300	98,000	96,332	93,469	86,182	83,334	76,733
Total Volumes Borrowed	218,391	245,786	246,786	377,110	343,000	327,324	349,783	309,351	281,845	269,950
Water										
New Connections	30	12	26	13	8	33	59	248	N/A	N/A
Water Main Breaks	125	150	237	212	197	170	131	82	N/A	N/A
Average Daily Consumption (Thousands of Gallons)	2,095	2,096	2,073	2,595	1,257	263	261	115	N/A	N/A
Peak Daily Consumption (Thousands of Gallons)	2,763	2,714	2,654	3,452	1,664	34	27	183	N/A	N/A
Wastewater										
Average Daily Sewage Treatment (Thousands of Gallons)	963	983	957	963	940	960	1,017	987	910	910
Transit										
Total Route Miles	267,256	N/A	94,804 *	180,230	230,457	221,819	219,483	179,644	105,046	94,630
Passengers	117,519	N/A	2,099 *	48,164	50,622	55,330	48,212	40,830	36,745	36,115

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

- Notes:** 1) N/A indicates the information was either not available or not applicable
2) * The significant decline was due to the elimination of a portion of the City's transit.

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

	Fiscal Year Ended June 30									
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Function</u>										
Police										
Police Stations	1	1	1	1	1	1	1	1	1	1
Patrol Units	27	20	30	19	17	24	19	16	18	16
Fire Stations	1	1	1	1	1	1	1	1	1	1
Other Public Works										
Streets (Miles)	63	63	63	63	60	60	60	60	60	60
Highways (Miles)	20	10	10	10	10	10	10	10	10	10
Streetlights	644	644	644	644	646	646	646	646	598	597
Traffic Signals	10	10	10	10	10	10	10	10	9	8
Parks and Recreation										
Acreage	125	125	125	125	121	121	121	121	121	121
Playgrounds	5	5	5	5	5	5	5	5	5	5
Baseball/Softball Diamonds	8	8	8	8	8	6	5	5	5	5
Soccer/Football Fields	4	4	3	3	2	1	1	1	1	1
Community Centers	2	2	2	2	1	1	1	1	1	1
Water										
Water Mains (Miles)	94	94	92	92	90	87	87	N/A	N/A	N/A
Fire Hydrants	573	569	558	558	558	349	349	N/A	N/A	N/A
Storage Capacity (Thousands of Gallons)	3,800	3,208	3,208	3,209	5,336	7,836	7,836	N/A	N/A	N/A
Wastewater										
Sanitary Sewers (Miles)	50	49	49	49	49	48	35	35	35	35
Treatment Capacity (Millions of Gallons)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Transit										
Minibuses	11	N/A	N/A	9	7	7	6	6	6	6

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

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